

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

THE GENERAL FUND INTERIM MIGRATORY
ACCOUNTING STRATEGY

Report No. 96-180

June 26, 1996

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Department of Defense

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Acronyms

BACC	Budget Accounting Classification Code
CEFMS	Corps of Engineers Financial Management System
CERPS	Centralized Expenditure and Reimbursement Processing System
CFO	Chief Financial Officer
CIM	Corporate Information Management
DCMS	Departmental Cash Management System
DFAS	Defense Finance and Accounting Service
DMRD	Defense Management Review Decision
DPAS	Defense Property and Accounting System
FASTDATA	Fund Administration and Standardized Document Automation System
GAFS	General Accounting and Finance System
GLFC	General Ledger/Funds Control System
HQARS	Headquarters Accounting and Reporting System
JFMIP	Joint Financial Management Improvement Program
KAR	Key Accounting Requirement
OMB	Office of Management and Budget
PBAS	Program Budget and Accounting System
SABRS	Standard Accounting and Budget Reporting System
STANFINS	Standard Finance System
STARS	Standard Accounting and Reporting System
SOMARDS	Standard Operations and Maintenance, Army Research and Development System
USD(C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL
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June 26, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on The General Fund Interim Migratory Accounting Strategy
(Report No. 96-180)

We are providing this audit report for review and comment. We considered management comments on a draft of this report in preparing the final report.

The Deputy Chief Financial Officer stated that the recommendations to cancel the current strategy and implement a single system approach have merit and additional actions can be taken to increase the management attention, resources, and pace of the ongoing strategy execution. In fact, the Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service have taken actions that significantly move DoD towards a single system approach for general fund accounting. However, the Deputy Chief Financial Officer nonconcurred with the recommendations to cancel the current strategy and implement a single system approach. This appears to leave open the issue of continued spending on Service-unique systems still planned under the current strategy.

DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be resolved promptly. We request the Under Secretary of Defense (Comptroller) reconsider his position and provide additional comments on this final report by August 26, 1996.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. Richard B. Bird, Audit Program Director, at (317) 542-3859 (DSN 699-3859) or Mr. John J. Vietor, Audit Project Manager, at (317) 542-3855 (DSN 699-3855). Appendix J lists the planned distribution of this report. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-180
(Project No. 5FI-2012)

June 26, 1996

The General Fund Interim Migratory Accounting Strategy

Executive Summary

Introduction. Accounting system deficiencies within DoD have been identified as the major reason that accounting information is unreliable and unsupported. Auditors cannot render audit opinions on general fund financial statements because of system deficiencies. The Defense Finance and Accounting Service established the Interim Migratory Accounting Strategy to decrease the number of accounting systems and correct accounting system deficiencies by the end of FY 1997. The long-term objective of the Defense Finance and Accounting Service is to implement a single, integrated DoD-wide accounting system after initially migrating to a reduced number of accounting systems.

Audit Objectives. The audit objective was to evaluate the General Fund Interim Migratory Accounting Strategy established by the Defense Finance and Accounting Service. We reviewed the reasonableness of objectives, time frames, and costs established to achieve auditable DoD general fund financial statements. We also evaluated the management controls as they applied the General Fund Interim Migratory Accounting Strategy. We will audit and report on the Defense Business Operations Fund Interim Migratory Accounting Strategy separately.

Audit Results. The initial DoD General Fund Interim Migratory Accounting Strategy would have resulted in a duplication of effort through migration (corrected and used, as opposed to replaced) of multiple, Service-unique accounting systems. The Service-unique approach used for the Strategy did not fully support DoD Corporate Information Management Initiatives, Defense Management Review Decision 910 or meet the requirements of Office of Management and Budget Circular A-127 and the Joint Financial Management Improvement Program. In addition, the initial General Fund Interim Migratory Accounting Strategy had no chance of producing compliant accounting systems in the near term. Some progress was made in FY 1995 in decreasing the number of accounting systems, which the Defense Finance and Accounting Service estimated will result in a future reduction of annual operating expenses. However, little or no progress was made in correcting accounting system deficiencies for compliance with the 13 key accounting requirements. As a result, the Defense Finance and Accounting Service had already spent \$36 million of Defense Business Operations Fund - Capital Funds in FY 1995 and could have inefficiently spent at least another \$187 million attempting to migrate to four noncompliant suites of Service-unique general fund accounting systems, comprising nine separate systems. The initial Strategy entailed high risk that the Defense Finance and Accounting Service would not be able to make the four Service-unique suites of accounting systems compliant before the available Defense Business Operations Fund - Capital Funds were spent, and that the Department would be unable to produce auditable consolidated financial statements from noncompliant systems for several more years.

We concluded that a standard core general fund accounting system could be selected for DoD-wide use and implemented within the same approximate time frames that the

multiple, Service-unique approaches could eventually take. The personnel, funds, and time needed to complete the General Fund Interim Migratory Accounting Strategy would be better utilized if directed at achieving the ultimate goal of a single, DoD-wide compliant general fund accounting system instead of attempting to redesign and modify multiple, Service-unique, noncompliant accounting systems. Canceling the Interim Migratory Accounting Strategy would avoid spending personnel resources, time, and funds attempting to correct multiple accounting systems, of which only one will ultimately be selected for long-term use DoD-wide. We identified a material management control weakness in that the Defense Finance and Accounting Service had not established an effective program management structure to oversee the Strategy.

Because of the nature of the finding and recommendations, we discussed the report with the Under Secretary of Defense (Comptroller); Director, Defense Finance and Accounting Service; and senior financial managers of the Army, Navy, Air Force, and Marine Corps. The Under Secretary of Defense (Comptroller) may encounter significant obstacles in convincing all of the Services to convert in the near term to a single DoD-wide system. However, the initial plan, continuing to invest in multiple redundant systems, was unlikely to produce sufficient progress and a more aggressive approach was needed. Part I of this report provides the details of our audit. See Appendix H for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the General Fund Interim Migratory Accounting Strategy be canceled and that a single DoD-wide system approach be adopted for general fund accounting. We also recommend that a centralized program management structure be established to direct and control the selection and implementation of the DoD-wide accounting system.

Management Comments. The Deputy Chief Financial Officer stated the recommendations to cancel the Strategy and implement a single system approach have merit. However, he nonconcurred with these recommendations, stating that the current Strategy is more cost effective, will provide benefits sooner, won't take as long to complete, and provides the least risk. The Deputy Chief Financial Officer partially concurred with the recommendation to establish a program management structure over accounting system development. The Defense Finance and Accounting Service issued a memorandum on April 17, 1996, announcing the establishment of a program management office. However, the office will not focus on a single-system approach. See Part I for a general summary of management comments. See Appendix G in Part II for a summary of management comments on the finding and recommendations. See Part III for the complete text of management comments.

Audit Response. The management comments were partially responsive. While the Deputy Chief Financial Officer disagreed with the recommendations to cancel the current Strategy and implement a single system approach, the Under Secretary of Defense (Comptroller) and the Defense Finance and Accounting Service have taken actions that significantly move DoD towards a single system approach for DoD general fund accounting. For example, on May 28, 1996, the Under Secretary of Defense (Comptroller) altered the current Strategy by designating the Corps of Engineers Financial Management System as the general fund migration accounting system for Army general fund accounting. At the same time, the Defense Finance and Accounting Service was seeking approval to designate the same system for Air Force general fund accounting. These two management actions could redirect \$107 million of the \$187 million earmarked for developing Service-unique systems to a single system.

A summary of our response to management's comments on our recommendations is in Part I of this report. Detailed responses to management's comments on the finding and

recommendations are in Appendix G. We request the Under Secretary of Defense (Comptroller) reconsider his position on the remaining Service-unique system development efforts in response to our final report. We ask that all additional comments on the final report be provided by August 26, 1996.

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Part I - Audit Results

Audit Background

Previous Financial Statement Audits. We conducted this audit as a result of previous financial statement audits of DoD general funds. Auditors have performed financial statement audits of the Air Force General Fund since FY 1988 and the Army General Fund since FY 1991. No audit opinions, other than disclaimers of opinion, have been rendered.

Audit Report Summarizes Major Deficiencies of Financial Statements. IG, DoD, Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995, summarizes the major deficiencies impeding the ability of DoD to produce auditable general fund financial statements. See Appendix A for details of the audit report. See Appendix E for the specific system deficiencies identified by audit. The audit report identifies accounting systems inadequacies as the major reason that auditors cannot render audit opinions on DoD general fund financial statements. The audit report concluded that the auditors could render an opinion on DoD general fund financial statements in the year 2000 at the earliest. This conclusion is based, in part, on the two-phased accounting system improvement plan established by the Defense Finance and Accounting Service (DFAS).

Accounting System Improvement Plan. The DFAS established a two-phased approach to decrease the number of accounting systems and correct accounting system deficiencies. Phase one of the accounting system improvement plan, to be completed by the end of FY 1997, involved the correction and deployment of a select group of existing, Service-unique general fund accounting systems as part of the Interim Migratory Accounting Strategy. The DFAS had not established formal plans or time frames for phase two to select and implement the best interim migratory accounting system(s) DoD-wide.

DoD Corporate Information Management Initiative. In 1990, the DoD initiated several related efforts, known as the Corporate Information Management (CIM) initiatives, to achieve its changing information management goals. The DoD recognized the need to reduce operating support costs, and the need for integrated and interoperable automated information systems. DoD has been changing its focus from individual automated information systems developed to meet Components-specific requirements to those developed to meet DoD-wide requirements. One major element of the CIM initiative is to implement migratory (corrected and used, as opposed to replaced) systems for use in functional areas on a DoD-wide basis during the transition from numerous existing and nonstandard automated information systems. In October 1993, the Deputy Secretary of Defense accelerated the selection and deployment of migratory systems and required:

- o selection of migratory systems within 6 months, with follow-on DoD-wide transition to the selected systems over a period not to exceed 3 years; and

- o complete data standardization within 3 years by simplifying data standardization procedures, reversing engineering data requirements in approved and proposed migratory systems, and adopting standard data previously established by individual functions and DoD Components for DoD-wide use wherever practical.

Defense Management Review Decision on Finance and Accounting. In 1991, the Defense Management Review Decision (DMRD) 910, "Consolidation of DoD Accounting and Finance Operations," directed the Defense Finance and Accounting Service to:

- o capitalize finance and accounting functions within DoD,
- o assume responsibility for all finance and accounting regionalization and consolidation effort throughout DoD, and
- o establish an implementation group.

The implementation plan for DMRD 910 acknowledged the need to improve and standardize accounting systems; establish control and direction over policy, procedures, standards, systems and operations of all finance and accounting organizations within DoD; and reduce costs by adopting standard systems, streamlining and consolidating operations, and eliminating redundancy to meet the financial management challenges of a smaller, more efficient DoD.

Office of Management and Budget Circular A-127. Office of Management and Budget (OMB) Circular A-127 prescribes policies and standards for Federal agencies to follow in developing and operating financial management systems. This circular requires that each agency establish and maintain a single, integrated financial management system that complies with accounting principles, internal control standards, and all applicable OMB and Treasury requirements. This circular defines a single, integrated financial management system as a unified set of financial systems, non-financial systems, and mixed systems that are planned for and managed together, operated in an integrated fashion, and linked together electronically to provide agency-wide financial system support.

Joint Financial Management Improvement Program. The Joint Financial Management Improvement Program (JFMIP) is a cooperative effort of OMB, the General Accounting Office, Office of Personnel Management, and the Department of Treasury working collectively with other Federal agencies to improve financial management practices throughout the government. The JFMIP publishes documents to provide overall objectives and strategies for achieving improved financial management. The JFMIP has published numerous documents under their Federal Financial Management System Requirements Series including "Framework for Federal Financial Management Systems" and "Core Financial Systems Requirements" that describe the elements of a model for integrated financial management systems and the systems architecture that each Federal agency should strive for in support of all levels of management decision making and external reporting requirements.

Audit Objective

Our audit objective was to evaluate the General Fund Interim Migratory Accounting Strategy established by the DFAS. We reviewed the reasonableness of objectives, time frames, and costs to achieve auditable DoD general fund financial statements. We also evaluated the management controls as they applied to the General Fund Interim Migratory Accounting Strategy. We will audit and report on the Defense Business Operations Fund Interim Migratory Accounting Strategy separately. See Appendix A for a discussion of the scope and methodology related to the audit objectives. Appendix B provides information on proposed legislation and on a proposed accounting standard that, if implemented, may affect the General Fund Interim Migratory Accounting Strategy.

Correcting DoD General Fund Accounting Systems

The General Fund Interim Migratory Accounting Strategy (the Strategy) established by DoD to migrate to a reduced number of DoD general fund accounting systems would have resulted in a duplication of effort through development and deployment of multiple, Service-unique accounting systems. The Service-unique approach used for the initial Strategy did not fully support DoD CIM initiatives and DMRD 910, or the requirements of OMB Circular A-127 and the JFMIP. In addition, the Strategy would not produce compliant accounting systems for at least several years for the following reasons.

- o The Strategy was directed at migrating to four suites of Service-unique accounting systems, comprising nine separate systems, that required major development, redesigns, and modifications to comply with statutory and regulatory requirements and meet the 13 key accounting requirements (KARs).

- o The DFAS was unable to determine realistic time frames and cost estimates because the Strategy's individual plans were incomplete and DFAS had not progressed beyond the initial accounting system evaluation phase.

- o A centralized program management structure was not in place to provide consistent direction and control over Interim Migratory Accounting Strategy efforts.

As a result, the DFAS would have unnecessarily spent at least \$187 million attempting to migrate to nine Service-unique general fund interim migratory accounting systems without achieving an accounting system that can produce compliant consolidated DoD financial statements. The DFAS has already spent \$36 million in FY 1995 on interim migratory accounting systems that resulted in little or no progress in actually correcting accounting system deficiencies for compliance with the 13 KARs.

Strategy Background

Initial Studies and Evaluations of General Fund Accounting Systems. The DFAS began reviewing accounting systems in August 1991 to develop a plan to decrease the number of DoD accounting systems and to correct system deficiencies. In August 1992, the Director, DFAS, recommended that the Corps of Engineers Financial Management System (CEFMS), which was in development, be selected as the standard DoD system for general fund accounting. The then-Acting DoD Comptroller (the Acting Comptroller) rejected the recommendation in December 1992, citing the need to select a

system that had been proven in an operational environment. Instead, the Acting Comptroller designated the Defense Business Management System as the standard DoD system for both general fund and Defense Business Operations Fund accounting. The current Under Secretary of Defense (Comptroller) (USD(C)) staff reversed the decision to use the Defense Business Management System DoD-wide in October 1993. As a result, the DFAS established the Strategy, with its multiple system approach, in December 1993.

Two-Phased General Fund Accounting System Improvement Plan. The DFAS established a two-phased accounting system improvement plan to correct identified accounting system deficiencies and decrease the number of accounting systems used in DoD. Phase one, the Strategy, involved the selection, correction, and deployment of existing Service-unique accounting systems as interim migratory accounting systems. The Strategy called for limited investment of time and funds into a select group of Service-unique accounting systems. This investment would satisfy regulatory and statutory requirements including the Antideficiency Act, the Chief Financial Officers (CFO) Act, and the requirements of the United States Treasury, the OMB, and the Congress. The Strategy was to begin in early FY 1995 and be completed by the end of FY 1997. The best interim migratory accounting system(s) was to be selected and implemented DoD-wide during phase two. The DFAS had not established time frames for phase two.

The Strategy Objectives and Method of Selection. The two objectives of the Strategy were to decrease the number of accounting systems used to support the individual Services and the Marine Corps and to correct accounting deficiencies in the interim migratory accounting systems selected for retention. The DFAS Headquarters tasked the DFAS Centers to submit proposals for general fund interim migratory accounting system selections. The DFAS Centers were to select the best system or suite of systems to perform all required accounting functions. The DFAS Headquarters required the DFAS Centers to:

- o perform functional and technical reviews to identify the functions and capabilities the accounting systems possessed,
- o perform economic analyses to estimate the costs required to bring the accounting systems into compliance with statutory and regulatory requirements, and
- o gain customer acceptance for the accounting systems that were selected.

In addition, the Strategy supports the overall DFAS objectives of reducing costs and consolidating over 300 Defense Accounting Offices into 21 Operating Locations.

Selection Criteria and Results. The DFAS Headquarters limited the DFAS Centers to selecting accounting systems that DFAS had already taken over from the Services. To be selected, DFAS Headquarters required an interim migratory accounting system be fully operational or be in an advanced state of development and partially implemented. The scope of the Strategy was to make

selective investments to correct identified interim migratory accounting system deficiencies. A system redesign was not considered feasible. The Strategy was to result in individual DFAS Centers supporting the individual Services and the Marine Corps through the use of Service-unique accounting systems. The table below lists the accounting systems the DFAS Centers have included as part of the Strategy.

Systems Selected as General Fund Interim Migratory Accounting Systems

DFAS Indianapolis Center

- o Headquarters Accounting and Reporting System
- o Program Budget Accounting System
- o Standard Finance System¹
- o Standard Operations and Maintenance, Army Research and Development System
- o Corps of Engineers Financial Management System²

DFAS Cleveland Center

- o Centralized Expenditure and Reimbursement Processing System
- o Standard Accounting and Reporting System
- o Fund Administration and Standardized Document Administration System

DFAS Denver Center

- o Departmental Cash Management System
- o General Ledger/Fund Control System

DFAS Kansas City Center

- o Standard Accounting and Budget Reporting System

¹The DFAS Headquarters deleted the Standard Finance System as an interim migratory accounting system in August 1995.

²The DFAS Indianapolis Center is evaluating CEFMS as a potential general fund interim migratory accounting system to support Army field-level accounting.

See Appendix C for a description of the interim migratory accounting systems.

Interim Migratory Accounting Systems Requirements. Each accounting system chosen for the Strategy was to be modified to meet the 13 key accounting requirements established by DFAS; implement the standard Budget Accounting Classification Code (BACC); convert historical data from the legacy accounting systems into the accounting systems chosen for the Strategy; and

correct accounting system deficiencies identified by users and auditors. Appendix D describes the 13 KARs and the BACC. Appendix E lists and describes the accounting system deficiencies identified in FYs 1993 and 1994 audits.

Development of Multiple Suites of Accounting Systems

Resources Expended for Duplicate Plans. The Strategy to modify DoD general fund accounting systems resulted in a duplication of effort. Under the Strategy, the DFAS Centers were unnecessarily spending resources to duplicate development and correction of multiple suites of accounting systems to perform the same general fund accounting functions for the individual Services and the Marine Corps. Each suite of accounting systems was to perform the functions of budget execution and funds control, field-level processing and reporting, and department-level processing and reporting. Each suite of accounting systems underwent separate evaluations to determine how to meet the accounting requirements that include the 13 KARs, implementation of the standard BACC, Treasury reporting, OMB requirements, and the production of CFO financial statements. In addition, each suite of accounting systems needed to be modified or redesigned to allow DFAS personnel to follow the DoD Financial Management Regulation, 7000.14-R, which was being developed by the DFAS as the single source of finance and accounting policies. Each suite of interim migratory accounting systems would have had to process accounting data consistently to allow for comparability and compilation into the consolidated DoD financial statements.

Separate Approaches Developed for the Strategy. As part of the Strategy, the DFAS Centers developed separate, duplicative approaches to solve unique problems inherent in their selected suites of interim migratory accounting systems. No accounting system chosen for the Strategy met all accounting requirements. Therefore, individualized plans were developed to correct unique accounting system deficiencies in each interim migratory accounting system. Each interim migratory accounting system project office had separate plans, funds, and personnel working toward the goal of producing a compliant general fund accounting system that met statutory and regulatory requirements. However, as of October 1995, the DFAS Centers were either proposing further studies of complete redesigns or planning major modifications to their suites of accounting systems, or were still in the accounting system concept evaluation phase.

Multiple Systems Used in Operating Locations. The initial Strategy hindered the overall DFAS consolidation because the Strategy was directed at implementing multiple, Service-unique general fund accounting systems. The DFAS is in the process of consolidating over 300 Defense Accounting Offices into 5 Centers and 21 Operating Locations (the actual number of Operating Locations is being reconsidered). Some of the Operating Locations support multiple Services and are forced to process data on the numerous accounting systems used to support the individual Services and the Marine Corps. For

example, the Operating Location in Norfolk, Virginia, is currently supporting the Army and the Navy on 26 different accounting systems (both general fund and Defense Business Operations Fund). The multitude of accounting systems required at the Operating Locations is both costly and inefficient.

Although the number of accounting systems used at the Norfolk Operating Location should decrease, unless a single general fund accounting system approach is adopted by the DFAS, the efficiencies realized by the DFAS consolidation will not be maximized.

Strategy Efforts Focused on Service-Unique Solutions Instead of DoD or Broader Solutions. The Strategy's Service-unique approach did not fully support the DoD CIM Initiative or DMRD 910 or meet the requirements of OMB Circular A-127, or comply with the JFMIP.

DoD CIM Initiative. The Strategy did not support the overall DoD CIM initiative to migrate to systems that support functional areas on a DoD-wide basis. The Strategy, instead, allowed Service-unique general fund accounting systems. In a memorandum dated October 13, 1993, the Deputy Secretary of Defense defined "functional area" (for example, accounting) as consisting of one or more "functional activities" (for example, general fund accounting), each of which consists of one or more "functional processes" (for example, field-level reporting). The DFAS had no formal plans to support the initiative of a single system to support the "functional area" of accounting on a DoD-wide basis, as required by the CIM, and does not support even a single system for the "functional activity" of general fund accounting on a DoD-wide basis.

DMRD 910. The Strategy did not fully support DMRD 910. Without a single accounting system, it would be difficult for DFAS to fully establish control and direction over policy, procedures, and operations. More importantly, DFAS would experience difficulty in adopting standard systems, eliminating redundancy, and reducing costs.

OMB Circular A-127. The Strategy did not support the OMB Circular A-127 requirement to establish a single, integrated financial management system. Instead, the Strategy would result in four disconnected system architectures that are not integrated and would not contain standard data. Integration and standardization are crucial elements needed for a financial management system to support managers at all levels of DoD with complete information and for external reporting requirements.

Joint Financial Management Improvement Program. The Strategy did not comply with the JFMIP requirement for a core financial reporting system. The JFMIP, a cooperative effort among Federal agencies to improve financial management practices throughout the government, publishes documents to provide overall objectives and strategies for achieving improved financial management. The JFMIP has published a document that describes the elements of a model for integrated financial management systems and the systems architecture for which each Federal agency should strive.

JFMIP and OMB Circular A-127 System Architecture. The JFMIP system architecture, based on policy in OMB Circular A-127, depicts an integrated financial management system as multiple financial, non-financial, and mixed systems feeding into one core financial reporting system or accounting system. This core accounting system performs the functions of general ledger management, funds management, payment management, receipt management, cost management, and reporting. Figure 1 provides the JFMIP agency systems architecture.

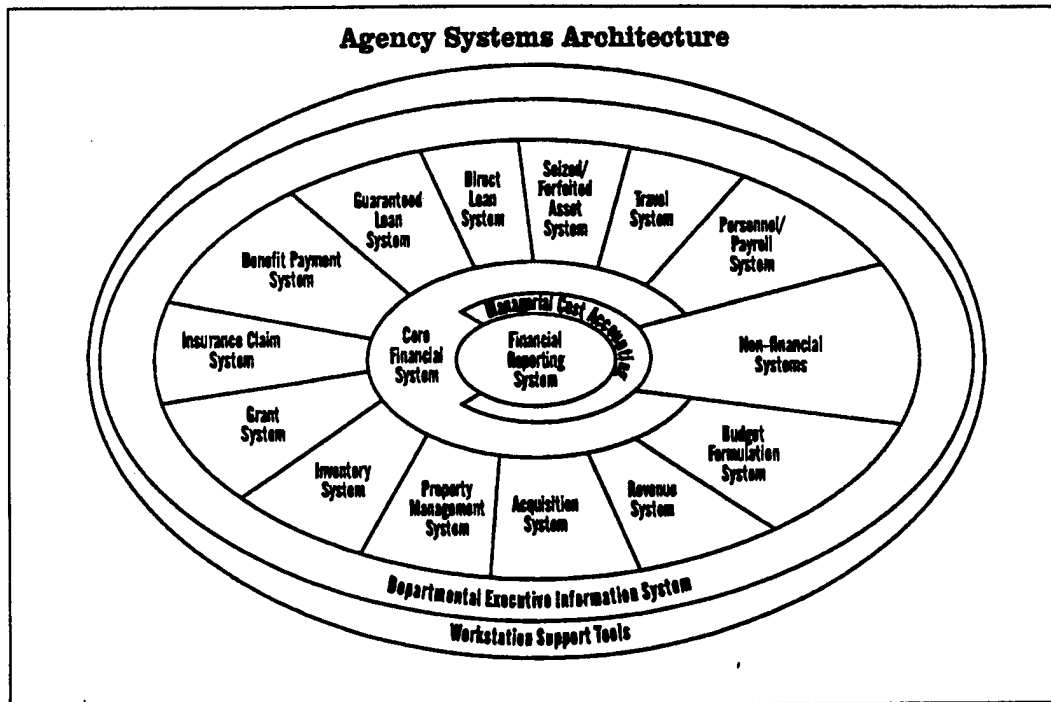


Figure 1. JFMIP Architecture for Integrated Financial Management Systems

The JFMIP model depicts the OMB Circular A-127 requirement for a single core financial reporting system.

DoD Strategy System Architecture. DoD Strategy allowed development of four disconnected, Service-unique system architectures that will not be integrated. Integration means that a user is able to have one view into the system such that, at whatever level the individual is using the system, he or she can get to the information needed efficiently and effectively through electronic means. Although DFAS had the standard BACC initiative underway, the systems would not contain standard data, which is crucial to provide DoD with the ability to record and process data consistently for meaningful and uniform reporting to all levels of management and for production of external reports. We discuss our concerns about implementing the BACC on page 21 of this report. In addition, the Service-unique architectures were being developed as separate stand-alone accounting systems. We provide further details regarding

our concerns about the lack of sufficient management control over the Strategy on page 20 of this report. The Strategy's Service-unique planned system architecture is shown in Figure 2.

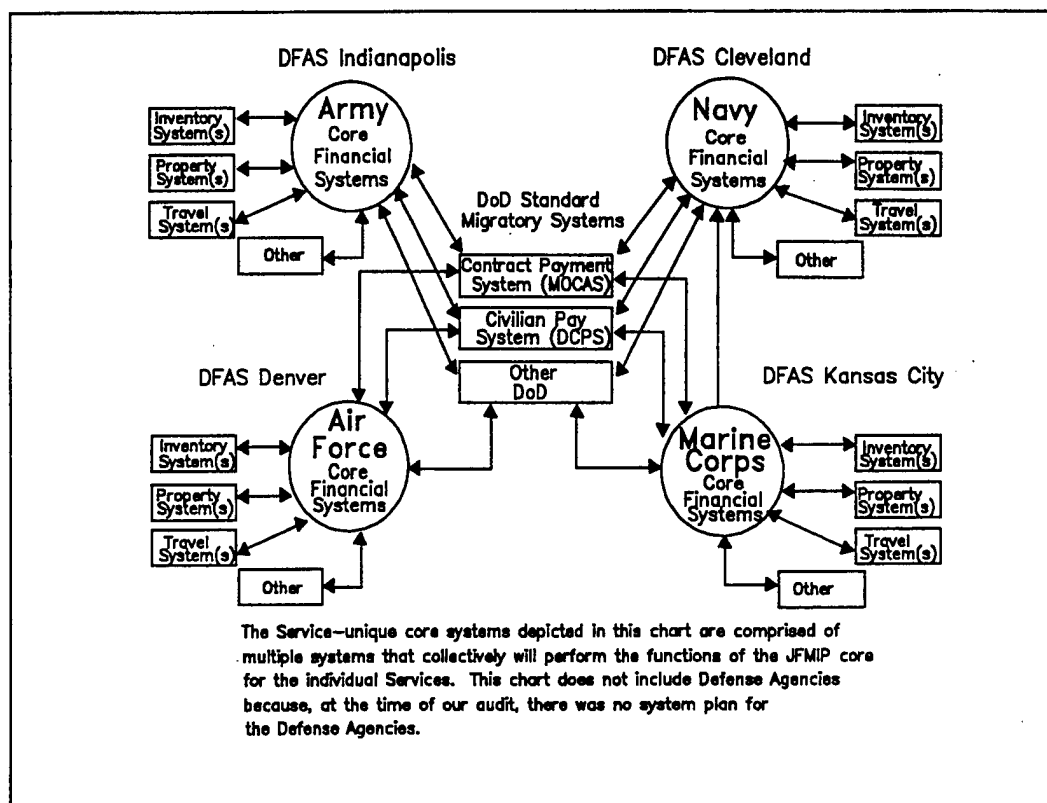


Figure 2. DFAS Strategy System Architecture

DoD Progress in Selecting Other Migratory Systems. DoD has made progress in selecting standard migratory systems for non-accounting areas to be used DoD-wide. For example, the Defense Civilian Pay System was designated the migratory system for all DoD civilian pay, replacing a number of legacy civilian pay systems. However, the full benefits of eliminating payroll systems cannot be fully realized because separate interfaces will be needed to pass the same type of data into separate Army, Navy, Air Force, and Marine Corps core financial systems. We believe that if the DoD Strategy is not modified to focus on a single, core accounting system solution, DoD will likely never achieve a fully integrated financial management system. In addition, the benefits achievable from DoD selection of standard migratory systems will not be fully realized because multiple interfaces will be needed to pass the same type of information into multiple, Service-unique systems.

Meeting Strategy Objectives. The Strategy was intended to correct general fund accounting system deficiencies and meet CFO Act requirements with limited resources as quickly as possible. However, we found that current DoD general fund accounting systems cannot be pieced together with only minor changes and the Strategy could not meet its objectives by the end of FY 1997 at

the earliest. As of October 1995, DFAS had not progressed beyond the accounting system evaluation phase. If the initial Strategy had been allowed to continue without adjustments, DoD would experience major delays in fielding a Federally compliant general fund accounting system. The following paragraphs describe why DFAS should cancel the existing Strategy, pursue a single general fund accounting system for DoD-wide use, and establish a centralized program management structure to provide direction and control over a single-system approach.

Interim Migratory Accounting Systems Require Redesigns and Major Modifications

The Strategy was directed at migrating to four suites of Service-unique accounting systems, comprising nine separate systems, that required major development, redesign, and modifications to comply with statutory and regulatory requirements. The original intent of the Strategy was to choose the best suite of current accounting systems for the individual Services and the Marine Corps and to spend limited time and funds to correct accounting system deficiencies. However, three of the selected interim migratory accounting systems required complete redesigns; and the Standard Accounting and Budget Reporting System (SABRS), the accounting system chosen to support Marine Corps general fund accounting, required major modifications to meet all requirements. The extent of redesign and modifications required for the other interim migratory accounting systems had not been identified because the Strategy plans were incomplete and work was still being performed to develop concept plans to correct the accounting systems.

Redesign of Departmental Cash Management Systems for Air Force and Navy Accounting. The DFAS Cleveland and Denver Centers planned to spend a combined \$20 million on duplicate development of separate systems that performed the same department-level cash management processing function to support the Navy and Air Force. These systems will perform the same departmental cash management functions as the Headquarters Accounting and Reporting System (HQARS) at the DFAS Indianapolis Center.

The Centralized Expenditure and Reimbursement Processing System (CERPS), which will report Navy disbursements, reimbursements, and collections data, will be completely redesigned. The redesign will include adding departmental cash management functions from 16 legacy systems. A legacy system will be maintained only until replaced by a migratory or interim migratory accounting system. The DFAS Cleveland Center personnel estimated the redesign will cost \$12.5 million and will not be fully completed before December 1999. The CERPS project office had only completed concept development analysis for the redesign. At the time of our review, the project office had not started actual redesign work because the DFAS Headquarters had not approved the CERPS redesign plan, nor had the development phase been funded. The DFAS Headquarters approved the CERPS redesign in October 1995.

The DFAS Denver Center was developing a new cash management system, Departmental Cash Management System (DCMS), to replace the current system, the Merged Accounting Finance and Reporting system. The DCMS would process cash transactions (disbursements, collections, and reimbursements) for all Air Force appropriations, including the Defense Business Operations Fund and Foreign Military Sales. The DFAS Denver Center personnel estimated that the development and implementation of DCMS would cost \$7.5 million. System implementation would take 30 months to complete and be conducted in increments throughout the development cycle. The actual development work on the redesign started in September 1995.

Redesign of Core General Fund Accounting System for Air Force Accounting. The DFAS Denver Center personnel determined that their current general fund accounting system could not incorporate general ledger accounting or the BACC without a complete redesign. During the first phase of their proposed plan, the DFAS Denver Center will redesign the General Ledger/Funds Control (GL/FC) system to process cash transactions, incorporate a transaction-driven general ledger, and implement the BACC. The plan will not produce a deliverable product for at least 3 years. Other requirements, such as property accounting and Defense Business Operations Fund interfaces, will not be addressed. The DFAS had not established time frames to meet all requirements, but DFAS Headquarters stated that at least \$82 million would be needed to implement the DFAS Denver Center portion of the Strategy. The DFAS Denver Center had not started the actual redesign of the GL/FC system, and the DFAS Headquarters had not approved the DFAS Denver Center redesign plan. However, the DFAS Headquarters allowed the DFAS Denver Center to continue concept development analysis work through February 1996.

Modifications Needed to the Standard Accounting and Budget Reporting System. The SABRS was chosen by the DFAS Kansas City Center as the interim migratory accounting system to support Marine Corps accounting. The SABRS was chosen because it received the highest score on functional and technical reviews and was already deployed to numerous Marine Corps sites. However, SABRS only received 23 percent of possible points during the functional review and will require extensive changes and at least \$10 million to meet all requirements, which includes adding functions from 7 legacy systems. The majority of changes required to SABRS, in addition to adding the functions from the 7 legacy systems, include implementing fund control, cost accounting, property accounting, and the BACC. Personnel in the SABRS project office acknowledged that SABRS required changes so extensive that it will no longer be recognizable as the accounting system in its current state.

Redesigns and Modifications Needed to Other Interim Migratory Accounting Systems. The extent of modifications needed to other interim migratory accounting systems were not known because the DFAS Indianapolis Center had not made final accounting system selections and individual interim migratory accounting system plans were either nonexistent or incomplete. The DFAS Indianapolis Center will not decide whether the Standard Operations and Maintenance, Army Research and Development System (SOMARDS) or the Corps of Engineers Financial Management System (CEFMS) will be the general fund accounting system to support Army field-level accounting before May 1996. In addition, the DFAS Indianapolis Center had not established formal plans to correct the Program Budget and Accounting System (PBAS) or the Headquarters Accounting and Reporting System. The Standard Accounting and Reporting System (STARS) may require a redesign or extensive changes after the DFAS Cleveland Center personnel complete the system evaluation and a plan is developed for the Strategy.

Summary. The DFAS developed the Strategy under the assumption that the best accounting systems currently used to support general fund accounting for the Services required only limited resources to be compliant with all regulatory and statutory requirements. However, the interim migratory accounting systems require extensive time and funds to be compliant with all regulatory and statutory requirements. Individual DFAS Centers were duplicating system development efforts to redesign and modify multiple accounting systems that were to provide the same accounting support to the individual Services and the Marine Corps. We concluded that DFAS could better use available resources to perform the basic core accounting requirements for DoD by developing and implementing a single core accounting system to support all DoD general fund accounting. A single-system approach, such as the JFMIP model (Figure 1, page 10), would eliminate an unnecessary step for DFAS, the Services, and the Defense agencies thereby avoiding unnecessary work and reducing the cost to the DFAS customers by eliminating multiple redesign and modification efforts and focusing on a single solution. Developing a single core accounting system would ensure consistency and comparability of the accounting data throughout DoD. Implementing a single core accounting system would meet the DFAS long-term goal for a single DoD-wide system for general fund accounting.

Time Frames and Costs of Interim Migratory Accounting Strategy

We reviewed individual interim migratory accounting system plans and concluded that the DFAS could not determine realistic time frames or support cost estimates established for the Strategy for the following reasons.

- o Individual interim migratory accounting system plans were incomplete and the Strategy had not progressed beyond the accounting system evaluation phase.

- o The Strategy did not include modifications required to DoD and Service-owned nonfinancial systems that interface with the accounting systems and provide data for the CFO financial statements.

- o The Strategy was only directed at accounting systems used by the Services and the Marine Corps and did not include unique accounting systems used by the Defense agencies.

Time Frames Established for the Strategy. The Strategy was initially established to begin in FY 1995 and be completed in FY 2000. In December 1993, the DFAS Headquarters informed the interim migratory accounting system project offices at the DFAS Centers that the USD(C), mandated the Strategy be completed by the end of FY 1997. We attempted to obtain formal documentation stating that the Strategy was to be completed by the end of FY 1997, but were informed by the DFAS Headquarters personnel that no formal documentation existed. We spoke with personnel in the Office of the Under Secretary of Defense (Comptroller) and were told that the DoD Chief Financial Officer's 5-Year Plan originally cited the completion date of September 30, 1997, but had recently been updated to cite a more realistic completion date of September 30, 2000. Although we could not obtain support for the establishment of the Strategy time frames, all written plans provided by the interim migratory accounting system project offices at the DFAS centers were developed based on the September 30, 1997, completion date.

Plan Completeness and Strategy Progress. The individual interim migratory accounting system plans were incomplete because in some cases, final accounting system selections had not been made, the scope of modifications had not been identified, and plans did not address all requirements. In addition, the \$36 million of work completed in FY 1995 under the Strategy had been a continuation of analyses and evaluations of accounting systems that had been ongoing since 1991. Although some progress was made in FY 1995 to reduce the number of legacy accounting systems, thereby allowing for reductions in future operating costs, little progress had been made in actually correcting the interim migratory accounting system deficiencies. Because the plans were incomplete and the Strategy had not progressed beyond the accounting system evaluation phase, the DFAS was unable to determine realistic time frames and cost estimates. The following is a discussion of our concerns, by individual DFAS center, regarding plan completeness and Strategy progress:

DFAS Indianapolis Center Plan. The DFAS Indianapolis Center could not complete its portion of the Strategy by the end of FY 1997 for an estimated total cost of approximately \$26 million, as originally stated in their plan. We concluded that the DFAS Indianapolis Center could not reasonably estimate the time frames or costs of correcting its general fund accounting systems because, at the time of our audit, they were still evaluating field-level accounting systems for selection and had not completed plans to correct their department-level accounting system, the Headquarters Accounting and Reporting System, or the Program Budget and Accounting System.

Selecting a Field-Level Accounting System. The DFAS Indianapolis Center initially chose the Standard Finance System (STANFINS) and the SOMARDS as field-level accounting systems for Army general fund accounting. However, in September 1995, DFAS Headquarters designated STANFINS as a legacy system. The STANFINS project office had already spent over \$3 million in FY 1995 to make changes to meet the Strategy requirements. In addition, the DFAS Indianapolis Center received approval from DFAS Headquarters in April 1995 to evaluate CEFMS as a potential field-level accounting system for Army general fund accounting. The CEFMS was scheduled to be evaluated through March 1996. At the time of our audit, a final decision to choose either SOMARDS or CEFMS as the field-level accounting system for Army general fund accounting was pending the outcome of the CEFMS test. On May 28, 1996, the USD(C) directed DFAS to develop CEFMS as the general fund migratory accounting system to support DFAS Indianapolis Center customers.

Progress of Evaluating CEFMS. At the time of our audit, we had concerns that the availability of the CEFMS software package and programming support may delay the CEFMS evaluation. CEFMS was originally developed by the Army Corps of Engineers (the Corps) to support the Corps business processes, both military and civil. The Army Corps of Engineers agreed to provide the DFAS Indianapolis Center with a copy of the software. However, the Corps did not provide the DFAS Indianapolis Center with programming support for system changes. The DFAS Indianapolis Center issued a contract for programming support in October 1995 to make numerous changes to CEFMS required to meet the Army general fund functional needs. The agreement between the DFAS Indianapolis Center and the Corps will result in the development of two versions of CEFMS. As of October 1995, the DFAS Indianapolis Center had not started making system changes to CEFMS because they had not received their copy of the CEFMS software.

Progress of Modifying SOMARDS. Although a final field-level accounting system was not be selected until after the CEFMS evaluation was completed, the SOMARDS project office received funds in FYs 1995 and 1996 to modify SOMARDS to meet the KARs and incorporate the BACC. The SOMARDS project office had made little progress in actually meeting these requirements because most system change efforts in FY 1995 were focused on system conversion and implementing the capability to prevalidate obligations before disbursements are made. Prevalidation of obligations for disbursements of \$5 million and more is a requirement of Public Law 103-335, Section 8137.

Progress of Modifying HQARS. The DFAS Indianapolis Center chose the HQARS as the interim migratory department-level reporting system for Army accounting data and the PBAS as the budget execution and funds control system. The DFAS Indianapolis Center CFO Financial Management 5-Year Plan, dated September 1995, did not establish a completion date to correct departures from the KARs. Rather, the CFO 5-Year Plan cited completion dates for HQARS, and for PBAS, to meet all the Strategy requirements as "To Be Determined." The DFAS Indianapolis Center has yet to publish a formal plan to correct accounting system deficiencies in HQARS or PBAS.

Summary. The DFAS Indianapolis Center could not establish accurate time frames or costs to implement the Strategy until a final field-level accounting system to support the Army is selected and then evaluated to identify all required system changes to ensure that it complies with all requirements. On May 28, 1996, the USD(C) directed the DFAS to develop CEFMS as the general fund migratory accounting system to support DFAS Indianapolis customers. However, the DFAS Indianapolis Center must still establish plans to correct accounting deficiencies in HQARS and PBAS. The DFAS Indianapolis Center plan cannot be completed before April 1999 because the STANFINS project office estimated a conversion schedule of at least 3 years to replace STANFINS with SOMARDS or CEFMS at 55 sites, once a field-level accounting system is selected. This uncertainty and conflict could be avoided and significant savings to the Army customers could be achieved by canceling the Strategy and selecting and implementing a single DoD-wide general fund accounting system.

DFAS Cleveland Center Plan. The DFAS Cleveland Center had not established realistic time frames and costs to complete the Strategy. The CERPS project office had not begun actual redesign work, and the STARS project office was still evaluating STARS to develop plans and identify required modifications to the system. Although the DFAS Cleveland Center did not know the time frames to complete the Strategy, the DFAS Headquarters personnel provided documentation that showed the CERPS and STARS Strategy would be completed by the end of FY 1997.

Evaluating CERPS. The CERPS project office was still in the system analysis phase and had only completed the requirements analysis for the redesign. At the time of our review, the CERPS project office had not started actual redesign work on the system because the DFAS Headquarters had not approved the actual redesign, test, deployment, or funding related to the CERPS plan. The DFAS Headquarters approved the CERPS redesign in October 1995. The CERPS project office personnel estimated the earliest they could complete the CERPS redesign would be December 1999.

Evaluating STARS. The STARS project office was still developing a conceptual plan for changes required to the system. The STARS project office contracted with an accounting firm to conduct an evaluation of the system for business process standardization and integration improvements and to identify required system changes to STARS to meet the KARS. The first delivery order, which was scheduled to be completed in January 1996, will only identify the "as is" and "to be" model for transaction processing. The contractor will continue evaluation of STARS through May 1998 to identify additional system changes and interface development requirements. Although the STARS project office estimated the Strategy could be completed in November 1999 for approximately \$43 million, we concluded the STARS project office cannot reasonably estimate the time frames required or true costs to complete the Strategy until they develop a plan for required system changes.

Estimated Completion Date. The DFAS Cleveland Center acknowledged in their Federal Managers' Financial Integrity Act submission, dated October 14, 1994, that their portion of the Strategy cannot be completed until at least FY 2001 because "Corporate Information Management

modernization delays, few standard data elements defined, practice sets not available for the DoD Standard General Ledger, funds not available for modernization of legacy systems, and financial processes have not been integrated within the functional areas they support in new systems requirements definition."

Summary. The DFAS Cleveland Center did not know the time frames required to complete their portion of the Strategy because the CERPS redesign had not begun and plans were not developed to fix STARS. The DFAS Cleveland Center and their individual project plans stated completion dates of September 30, 1997; however, the DFAS Cleveland Center's Federal Managers' Financial Integrity Act submission showed September 30, 2000, as an estimated completion date. This discrepancy in time frames and lack of progress will have major impact on the Navy management and could be alleviated if the Strategy is canceled and a single DoD-wide general fund accounting system is selected and implemented.

DFAS Denver Center Plan. The DFAS Denver Center had not identified realistic time frames needed to meet all requirements of the Strategy and were still in the concept development phase of the Strategy. In addition, we could not obtain support for multiple cost estimates provided by both the DFAS Headquarters and DFAS Denver Center. The DFAS Denver Center proposed a complete redesign of the GL/FC system to process Air Force general fund data. The DFAS Denver Center estimated that the redesign will take at least 3 years to complete but acknowledged that the planned redesign will not meet all requirements. Although the DFAS Headquarters was uncomfortable with the DFAS Denver Center's redesign plan, the DFAS Headquarters had not canceled the redesign plan. Instead, the DFAS Headquarters personnel stated they planned to establish a team to evaluate alternative approaches to the complete redesign of the DFAS Denver Center's general fund accounting system.

Initial DFAS Denver Center Plan. The DFAS Denver Center submitted a plan estimated to cost \$145 million to meet all requirements. The DFAS Headquarters disapproved this plan because of the extensive costs. The latest proposed redesign plan submitted to DFAS Headquarters by the DFAS Denver Center is estimated to cost \$50 million. The DFAS Denver Center personnel stated the new redesign plan did not address property accounting, which was estimated to cost \$60 million. Also, the plan did not include Defense Business Operations Fund requirements, estimated to cost \$20 million, or \$15 million of system changes not needed due to the new redesign plan.

The DFAS Headquarters Involvement in the DFAS Denver Center Plan. No time frames had been established to meet all requirements; however, the DFAS Headquarters estimated at least \$82 million would be needed to fund the plan. This estimate did not include unspecified hardware costs. The DFAS Denver Center personnel were evaluating options for a platform to run the GL/FC system and cannot estimate the costs until a platform is selected. Platform costs are additional to the \$82 million estimate. The DFAS Headquarters personnel stated they would form a team to evaluate alternative approaches to the complete redesign of the GL/FC system. The DFAS Headquarters team would evaluate the feasibility of using other DoD

accounting systems and acquiring a commercial off-the-shelf system to support Air Force general fund accounting. The DFAS Headquarters personnel stated that, if an alternative approach is found for the DFAS Denver Center, that approach would be evaluated for potential DoD-wide use.

Summary. The DFAS Denver Center had not started actual redesign work on the GLFC system. The DFAS Headquarters had not approved the DFAS Denver Center's new redesign plan, and the DFAS Denver Center had not completed their concept development and analysis of the accounting system. However, in August 1995, the Director, DFAS, approved continued concept and analysis work by the DFAS Denver Center through February 1996, while the DFAS Headquarters personnel planned to form a team to study and evaluate alternative approaches. The DFAS Denver Center could not establish realistic time frames or costs needed to complete their portion of the Strategy and meet all requirements because their plans were incomplete. To avoid this uncertainty, confusion, and lack of progress, the DFAS Headquarters should cancel the Strategy and select and implement a single DoD-wide general fund accounting system.

DFAS Kansas City Center Plan. The DFAS Kansas City Center had generally been able to meet Strategy milestones established for FY 1995 but had not completed development of their plan. The DFAS Kansas City Center developed a financial data processing architecture that identified the systems to be interfaced with SABRS to provide finance and accounting data for processing and inclusion of the Navy General Fund Financial Statements. However, the SABRS project office had not identified interfaces required to receive inventory data. The SABRS project office must also reevaluate their plan to develop one interface to the Defense Property and Accounting System (DPAS) to receive all real and personal property data. The SABRS project office personnel stated they may have to develop additional interfaces to other property systems to receive all real and personal property for inclusion on the CFO financial statements.

Costs and Time Frames to Fix DoD Systems that Provide Data to the Accounting Systems. The DFAS could not determine the actual time frames and costs to meet all statutory and regulatory requirements, including the production of auditable general fund financial statements because the Strategy only included modifications and redesigns of the DFAS accounting systems. The Strategy did not address modifications needed to the non-financial systems that pass data to the DFAS general fund accounting systems. The accuracy and auditability of general fund financial statements depend both on Federally compliant DFAS accounting systems and on DoD and Service non-financial systems that pass data to DFAS accounting systems. The data passed to DFAS accounting systems by non-financial systems are extensive. For example, the non-financial assets reported on the FY 1994 Army, Air Force, and Army Corps of Engineers general funds financial statements totaled \$514 billion. The \$514 billion of asset data was passed to DFAS accounting systems from numerous non-DFAS asset management systems. The DFAS Center's plans did not address this critical accounting issue.

The DFAS Denver Center estimated it would cost \$60 million to modify Air Force property systems to properly process and pass data into the proposed redesigned GL/FC accounting system. However, the DFAS Denver Center plan did not include these costs. The other DFAS Centers did not include cost estimates for modifications required to the non-financial systems. Although DFAS may not be required to fund all necessary modifications to non-financial systems, it is important to identify these modifications to estimate the complete costs and actual time frames to meet regulatory and statutory requirements, and produce auditable general fund financial statements.

Unique Defense Agency Accounting Systems. The Strategy was only focused on general fund accounting systems used by the Services and the Marine Corps and did not include unique accounting systems used by the Defense agencies. Some Defense agencies use Service accounting systems and are supported through the Strategy; however, many use unique accounting systems. The DFAS has only recently begun to identify the Defense agency unique systems and has not developed a formal plan to consolidate or correct these accounting systems. Although the Defense agencies are not required to prepare individual CFO financial statements, their accounting data will be consolidated with all other DoD accounting data for the preparation of the overall DoD financial statements.

Summary. The DFAS cannot estimate the actual time frames and costs to complete the Strategy because their individual plans are either incomplete or nonexistent. In addition, the DFAS Centers do not know the complete costs of producing accurate, auditable financial statements because the Strategy does not address the correction of all systems that provide data on the CFO financial statements. The interim migratory accounting system project offices spent approximately \$36 million in FY 1995. Although progress was made through the elimination of some legacy accounting systems, little or no progress was made in correcting system deficiencies. Most project offices are still evaluating their interim migratory accounting systems and developing conceptual plans to meet all requirements.

The DFAS cannot produce auditable financial statements until all non-financial systems that pass data to DFAS accounting systems are modified to meet accounting requirements. To adequately address this accounting issue, the DFAS should cancel the Strategy and select and implement a single DoD-wide system for general fund accounting. This approach would pool all available resources into a single DFAS structure that can effectively interface with the numerous asset management systems within DoD and the Services.

Centralized Management of the Interim Migratory Accounting Strategy

The DFAS did not establish a centralized management office to provide clear guidance, direction, and control to ensure that the DFAS Centers carried out the Strategy consistently. In addition to the management problems previously discussed, we found other inconsistencies and confusion at the DFAS Centers regarding the implementation of the Strategy. The following additional problem areas arose because of the lack of centralized management.

Implementation of Key Accounting Requirements. The 13 KARs that each interim migratory accounting system must meet are approximately two to three paragraphs in length, and there are no detailed descriptions to ensure consistent implementation. The DFAS Headquarters did not provide additional direction to the DFAS Centers to ensure that their approaches to fixing accounting systems were consistent in their attempts to meet the 13 KARs.

For example, we found confusion among the project offices regarding the interface to the DPAS to meet the property accounting requirement. In December 1994, the USD(C) designated DPAS as the DoD standard system for real and personal property to replace 150 legacy systems. The varied approaches to meet the property accounting requirement were as follows.

- o The DFAS Indianapolis Center planned to develop one interface from DPAS to SOMARDS. DPAS would pass all real and personal property data needed for inclusion on the CFO financial statements to SOMARDS.

- o The DFAS Cleveland Center did not have a formal plan to develop interfaces to receive real and personal property data.

- o The DFAS Denver Center will not address property accounting during the initial redesign of the GL/FC system. However, the DFAS Denver Center personnel had determined DPAS would not provide all necessary data and plan to develop numerous interfaces to Air Force property systems.

- o The DFAS Kansas City Center initially planned to develop one interface to DPAS. However, they believe that DPAS may only account for small items. A new plan to develop additional interfaces was under consideration.

We were informed by the interim migratory accounting system project offices and the DPAS project office that the Services had not accepted full use of DPAS. Also, the DPAS project office could not reasonably estimate the completion date of full deployment. The interim migratory accounting system managers could only speculate as to what interfaces will need to be developed if DPAS cannot provide all necessary data within a reasonable time frame. A centralized project office could have been used to identify and resolve problems that cross all DFAS Centers.

Standard Data Elements. We found confusion among the interim migratory accounting system project offices regarding the implementation of the standard BACC. The interim migratory accounting system project offices could not incorporate the BACC into the systems because it has not been fully developed. In addition, interim migratory accounting system project offices did not fully understand how to use the individual elements within the standard BACC.

Personnel at the DFAS Indianapolis Center are responsible for developing the data base to establish a standard BACC. The BACC is a group of codes intended to provide a consistent structure for financial data. The BACC ensures the reporting of comparable and consistent financial information and aids in the communication between systems. The BACC will consist of 49 data elements with specific codes within each element. The data elements and lengths of required fields had been developed by the DFAS Indianapolis Center personnel. However, the specific coding structures and detailed definitions had not been completely identified and selected. The data base is not expected to be complete before mid-year FY 1996. The BACC will change the entire basis for recording accounting transactions, and modifications to the interim migratory accounting systems to incorporate the BACC will be extensive. Because the BACC had not been fully developed, accounting system managers can only reserve space in their accounting systems to incorporate BACC until the data base is complete, and they cannot yet modify their accounting systems to process transactions using the BACC.

The interim migratory accounting system project offices did not understand how the BACC will work or how to implement the BACC to process transactions within their accounting systems. Additionally, some project offices did not believe the BACC will provide all necessary information. For example, the SABRS project office determined that they will need to add their Reimbursement Source Codes to the SABRS general ledger in order to maintain detailed records for reporting because the BACC will not contain such data. The other DFAS Centers, at this time, do not plan to implement Reimbursement Source Code into their general ledgers. Additionally, the DFAS Denver Center stated they will use BACC where possible. However, they did not believe it will provide all data needed to produce accounting reports.

The implementation of the standard BACC is an extensive change to the interim migratory accounting systems and will affect all transactions processed through the systems. To be useful and effective, the BACC must be used consistently. A centralized program management office could have ensured that the interim migratory accounting system project offices understood the BACC and that plans to implement and use the BACC were consistent among the DFAS Centers.

Departmental Reporting to Treasury. The DFAS Headquarters did not provide the DFAS Centers with consistent guidance for producing required Treasury reports from their interim migratory accounting systems. The DFAS Denver Center and DFAS Kansas City Center plan to produce the 1176 Budget Execution Report and 2108 Status of Appropriations year-end reports from the general ledger. The DFAS Indianapolis Center has no plans to change the source of reporting data to the general ledger and will continue to use status of

funds and budget execution data, which is not under general ledger control, as the source of data for departmental reporting. The DFAS Cleveland Center plans to produce the 1176 Budget Execution Report using STARS, which will incorporate the general ledger, but, at the time of our review, had not established formal plans to produce the 2108 Status of Appropriations report using STARS. The DFAS Cleveland Center established plans in November 1995 to produce the 2108 Status of Appropriations report. A centralized program management office could have provided the DFAS Centers with specific guidance for fixing their interim migratory accounting systems for producing Treasury reports on a consistent and comparable basis.

Status of STANFINS. DFAS Headquarters did not exercise direct control over accounting systems selected as interim migratory accounting systems. We found confusion between DFAS Indianapolis Center personnel and DFAS Headquarters personnel regarding the status of STANFINS as an interim migratory accounting system. The STANFINS had been selected and approved as an interim migratory accounting system. In FY 1995, the STANFINS project office spent over \$3 million to begin accounting system changes to meet the Strategy requirements.

A DFAS Corporate Management Advisory Board meeting was held in June 1995. At that time, the Director, DFAS, stated that funds to bring STANFINS into compliance with the Strategy requirements should be curtailed. In June 1995, the Deputy Director for Accounting Operations, DFAS Indianapolis Center, told the STANFINS project office that STANFINS was no longer an interim migratory accounting system and no funds, other than for operations and maintenance of the system, were to be spent to modify STANFINS to meet the Strategy requirements. However, in August 1995, the Assistant Deputy Director for Accounting Operations, DFAS Indianapolis Center, told the STANFINS project office to continue to correct accounting system deficiencies to meet all of the Strategy requirements because STANFINS was still considered an interim migratory accounting system. At the same time, the SOMARDS and STANFINS project offices conducted analyses to determine the complexity of converting STANFINS sites to SOMARDS.

In August 1995, we spoke with DFAS Headquarters personnel regarding the status of STANFINS as an interim migratory accounting system. The DFAS Headquarters personnel stated that DFAS Indianapolis Center personnel must inform DFAS Headquarters of any changes regarding the selection or deselection of interim migratory accounting systems. DFAS Headquarters personnel also stated that no clear decision had been made regarding STANFINS. However, meetings by DFAS Headquarters and DFAS Indianapolis Center personnel would need to be held to resolve the issue.

Shortly after an August 1995 meeting at DFAS Headquarters, where the STANFINS issue was discussed, the DFAS Headquarters informed the DFAS Indianapolis Center that STANFINS was to be replaced eventually by another interim migratory accounting system. At the time of our audit, the DFAS Headquarters was awaiting the outcome of the CEFMS test to decide to replace STANFINS with SOMARDS or CEFMS. On May 28, 1996, the USD(C) directed the DFAS to develop CEFMS as the general fund migratory accounting

Correcting DoD General Fund Accounting Systems

system for DFAS Indianapolis customers. A centralized program management office could have made a firm decision and resolved the confusion regarding the status of STANFINS as an interim migratory accounting system.

Headquarters Accounting and Reporting System. The HQARS project office did not establish a formal Strategy plan because they were not informed until June 1995 that HQARS was selected as an interim migratory accounting system. We met with personnel at the DFAS Indianapolis Center responsible for HQARS in July 1995. At that time, HQARS project office personnel stated that they only recently found out that HQARS was designated an interim migratory accounting system. The HQARS is reported in the October 1994 Indianapolis Federal Managers' Financial Integrity Act Annual Assurance Report as a noncompliant accounting system and will require changes to bring it into compliance with the Strategy requirements. However, the HQARS project office has no formal plan to correct accounting system deficiencies.

Summary. A centralized interim migratory accounting system program management office could have been used to direct Strategy efforts to ensure that plans were complete, the DFAS Centers were carrying out the Strategy consistently, and resolve problems that affect one or more of the DFAS Centers. In addition, a centralized program office would have been in a position to evaluate the progress of the Strategy as a whole and reevaluate and modify plans as needed. DFAS should establish a centralized program management office to provide direction and control over the selection and implementation of a DoD-wide system for general fund accounting.

Implementing a Single DoD-Wide General Fund Accounting System

A single, DoD-wide general fund accounting system would allow DFAS to meet multiple long-term goals to improve finance and accounting within DoD. The Office of the USD(C) established the Financial Management Reform Program to correct long-standing DoD financial management problems. This program consists of three major initiatives that are being pursued simultaneously due to the dependency and interconnection between the areas.

- o The Business Process Reengineering initiative seeks to eliminate needless and duplicative processes and standardize and consolidate business practices to make the systems and processes used in DoD financial management compatible.

- o The System Standardization strategy seeks to eliminate as many systems as possible by moving finance and accounting functions to a select set of migration systems.

- o The DFAS consolidation initiative will reduce the number of sites that perform finance and accounting functions to 5 Centers and 21 Operating Locations.

Implementing a single DoD-wide general fund accounting system sooner than originally planned would allow DFAS to meet the new regulatory and statutory accounting requirements for a significant portion of DoD accounting.

Advantages of a Standard System. Implementation of a standard general fund accounting system will move the DoD accounting community toward the goals of all three initiatives. First, a standard general fund accounting system will require the standardization of some business practices throughout DoD, while allowing the Services to maintain unique functionality as required through the use of Service-unique non-accounting systems. In addition, the Services can maintain their unique management practices, where required, through the use of the standard BACC which will allow accounting data to be identified and processed to support cross-Service functions and Service-unique functions. Second, as standard systems are chosen for other functional areas, such as property, a single interface can be developed into the standard general fund accounting system instead of multiple interfaces with Service-unique accounting systems. Finally, a standard general fund accounting system will allow the Operating Locations to support multiple Services at one site through one standard system. Some Operating Locations are forced to process data on multiple accounting systems because they support multiple Services on unique systems.

Time Frames for a Standard System. The DFAS had estimated that a complete deployment schedule of 5 years would be required for a DoD-wide general fund accounting system. The initial interim migratory accounting strategy would take that long also. We believe that a standard DoD-wide general fund accounting system could be selected and implemented within the same approximate time frames that the multiple, Service-unique approaches could eventually take. The DFAS long-term goal of a single, DoD-wide integrated general fund accounting system would be achieved and DFAS could avoid spending time and funds to redesign and modify multiple Service-unique general fund accounting systems, of which only one will be selected for long-term DoD-wide use.

Selecting a system for DoD-wide general fund accounting would not require additional studies of the accounting systems. The DFAS has extensively reviewed the accounting systems since 1991. These reviews included functional, technical, and economic analyses to identify accounting system capabilities and the significance of changes and costs necessary to bring the accounting systems into compliance. It must be recognized that no accounting system currently addresses every need or accounting requirement. A Deputy Secretary of Defense memorandum, dated October 13, 1993, states "that the implementation of standard migration systems may result in the loss of automated functionality by selected system users, whereas others may gain functionality. Loss of functionality should not be used as a reason to delay migration system selection and deployment unless there is a documented adverse impact on readiness within the deployment period, or an inability to comply with the law." The DoD-wide accounting system selected for general fund accounting should be selected based on current functionality and flexibility for modifications and upgrades.

Standardization of accounting practices and accounting systems will not adversely affect the varied missions of the DoD Components. The use of a single DoD-wide general fund accounting system will allow the Services to maintain their unique business practices through the use of financial and non-financial systems to feed data into the accounting system. In addition, the establishment and consistent use of the standard BACC allows the Services the flexibility to identify and process accounting data as needed to maintain accurate financial management information to support their unique business practices. General Fund accounting is not a Service-unique function that requires the use of multiple, Service-unique accounting systems.

Funding the Strategy. Some interim migratory system project offices, as well as DFAS Headquarters, acknowledged that funding shortfalls may cause their plans to slip. The initial DFAS Strategy included cost estimates of approximately \$216 million for FY 1995 through FY 1997. About \$36 million was spent in FY 1995 but little or no progress was made in correcting accounting system deficiencies. As DFAS Headquarters received budget cuts, these cuts were allocated to the interim migratory accounting system project offices. For example, in FY 1995 the SOMARDS project office requested \$3.8 million for functional enhancements but actually received \$1.1 million. The SOMARDS project office was forced to cut funds from the FY 1995 planned projects to meet the 13 KARs but must receive additional funds in the out-years to complete the Strategy. The DFAS Cleveland Center 5-Year Plan states that lack of funds is one major reason why DFAS Cleveland Center personnel cannot complete the Strategy plan before FY 2001. In addition, at the time of our review, the CERPS redesign had only been funded through the Requirements Analysis phase. Funds had not yet been received for the actual redesign, test, or deployment of the new system. The DFAS Headquarters approved the CERPS redesign in October 1995. Also, the DFAS Denver Center's redesign of the GL/FC system has not been approved by the Director, DFAS, nor has DFAS Headquarters funded the redesign effort. The Strategy plans will remain incomplete until sufficient funds are made available to all the interim migratory accounting system project offices. Also, there is a risk that scarce Defense Business Operations Fund-Capital Funds may not be available after the four Service-unique suites of accounting systems are made compliant, which could halt any further movement towards a single DoD-wide system.

Summary. Selecting a single DoD-wide system would help DFAS meet the goals of multiple financial management initiatives as well as the long-term goal of implementing a single, DoD-wide accounting system. The DFAS could select a DoD-wide general fund accounting system with minimal additional analysis since the existing accounting systems have been under evaluation since 1991. The time frames needed to deploy a single DoD-wide general fund accounting system are approximately the same as would be needed to complete the Strategy as it was originally formulated.

Summary

The DFAS chose an incremental approach to correct DoD general funds accounting systems. The initial approach was to spend limited time and funds on the best suite of existing accounting systems to correct system deficiencies and bring them into compliance with regulatory and statutory requirements. DoD would then take action to implement a single DoD wide accounting system. However, given the current state of the interim migratory accounting systems, limited time and funds will neither correct the accounting system deficiencies nor provide DoD with the capability of producing auditable DoD financial statements. Rather, the Strategy will result in a duplication of effort in attempts to migrate multiple, Service-unique accounting systems that require major development, redesigns, and modifications. Those attempts will cost at least an additional \$187 million and are unlikely to result in systems meeting the KARs. The Strategy should be replaced by a plan to implement a single, DoD-wide general fund accounting system to perform the basic core accounting functions required to produce DoD financial statements that will fully achieve the efficiencies and savings envisioned by the DMRD 910 initiative.

The DFAS Centers have yet to establish realistic time frames and cost estimates to complete the Strategy. The Strategy will not be completed by the end of FY 1997 as originally planned. The DFAS Centers' individual plans are incomplete and the DFAS Centers are still conducting evaluations of the interim migratory accounting systems to develop conceptual plans to bring them into compliance with statutory and regulatory requirements. Also, the DFAS did not establish a centralized program management office to direct and control the Strategy. The lack of a centralized program management office resulted in inconsistencies and confusion between the DFAS centers regarding the implementation of the Strategy.

The Strategy was initiated as a stepping stone to achieve the DFAS long-term goal to implement a single, integrated, DoD-wide system for general fund accounting to serve both the Services and the Defense agencies. Funds needed to modify and deploy a general fund accounting system capable of producing both DoD consolidated and organizational unique financial statements for DoD-wide use will be in addition to the funds used to implement the Strategy. DoD has yet to initiate any planning or system development efforts to take this final step and it will be years before DoD is in a position to do so. Canceling the Interim Migratory Accounting Strategy will allow DFAS to avoid spending funds to redesign, modify, and deploy four suites of Service-unique interim migratory accounting systems, comprising nine separate systems, of which only one will be selected for long-term DoD-wide use. The DFAS Centers expended approximately \$36 million of Defense Business Operations Fund-Capital Funds in FY 1995. The DFAS Centers estimated a total of at least \$187 million of Defense Business Operations Fund-Capital Funds would be needed to complete the Strategy. Canceling the Strategy would allow DoD to apply the \$187 million directly toward the DFAS goal of a single DoD-wide system for general fund accounting. See Appendix F for a breakout of the \$187 million potential cost avoidance by system. See Appendix H for a further discussion of the reapplication of the \$187 million. Based on current limited progress and

conflicting DoD budget priorities, we are concerned that DoD may never move beyond the non-compliant interim migratory systems to achieve the goal of a single DoD-wide system capable of producing auditable consolidated financial statements and realizing maximum benefit from consolidating support activities into DFAS.

Because of the nature of the finding and recommendations, we discussed the report with the USD(C); Director, Defense Finance and Accounting Service; and senior financial managers of the Army, Navy, Air Force, and Marine Corps. The USD(C) may encounter significant obstacles in convincing all of the Services to convert in the near term to a single DoD-wide system. However, we believed that the alternative, continuing to invest in multiple systems under the current General Fund Interim Migratory Accounting Strategy, is unwise and a more aggressive approach is needed. As discussed below, the Strategy appears to have begun shifting in that direction.

Management Comments on the Finding and Audit Response to the Comments

The Deputy Chief Financial Officer (Deputy CFO) commented extensively on the finding and took exception to various facts and conclusions presented in the draft report. See Appendix G for a summary of the Deputy CFO comments and the audit response.

Recommendations, Management Comments, and Audit Response

We recommend that the Under Secretary of Defense (Comptroller) direct the Director, Defense Finance and Accounting Service to:

1. Cancel the General Fund Interim Migratory Accounting Strategy.
2. Establish and implement a systems strategy based on a single, DoD-wide general fund accounting system approach.

Management Comments. The Deputy CFO nonconcurred with the recommendations to cancel the Strategy and replace it with a single system approach. However, he stated that the recommendations to cancel the Strategy and replace it with a single system approach have merit. The Deputy CFO stated that the basic elements of the Strategy continue to be valid. Multiple approaches were exhausted before deciding on the current incremental phasing strategy. This Strategy reduces legacy systems and substitutes interim systems that are being continuously enhanced. The continuous improvement process

greatly reduces the risk of system failure and yields short- and medium-term benefits, in addition to long-term benefits. Halting the ongoing execution of the current Strategy and substituting efforts to implement a single DoD-wide general fund accounting system would be more costly, take longer, provide little or no short or medium term benefits, and greatly increase the risk of putting DoD accounting operations in jeopardy. Thus, acceptance of the recommendations would greatly increase the risk of not improving DoD accounting system process even on an incremental basis. The recommendations were carefully evaluated both when developing the existing USD(C) Strategy and in formulating these comments to the audit report. The existing Strategy is believed to be the most feasible, as well as the most cost-effective approach. DoD cannot put its accounting systems and operations on hold until a standard general fund accounting system can be designed, developed, and fielded. Many past efforts to create new advanced business systems have fallen far short of expectations (due to time, cost, or functionality) or were cancelled. These efforts also suppressed functional and technical improvements in the interim period. This often resulted in the functional operations and systems being degraded further than when the initiative began. The current incremental strategy provides the least risk to DoD accounting operations and greatest potential for short-, medium-, and long-term success. The Strategy already has generated cost savings as a result of reducing the number of accounting systems from 91 to 77. This Strategy also supports consolidation of systems and operations from over 300 Defense Accounting Offices to 21 DFAS Operating Locations.

Audit Response. Although the Deputy CFO nonconcurrent with our recommendations to cancel the Strategy and implement a single system approach, the USD(C) and DFAS have taken actions that significantly move DoD towards a single system approach for DoD general fund accounting in accordance with the intent of our recommendations.

- o On May 28, 1996, the USD(C) directed the DFAS to proceed with development of CEFMS as the general fund migratory accounting system for the DFAS Indianapolis Center customers (which is predominantly the Army at the current time).

- o During May 1996, the DFAS Denver Center completed preliminary tests of CEFMS that concluded CEFMS could be used to support Air Force general fund accounting. The DFAS Denver Center is in the process of obtaining approval to continue with implementation plans for CEFMS as the Air Force general fund migratory accounting system.

- o On May 17, 1996, the USD(C) announced the approval of CEFMS to support the Defense Business Operations Fund Transportation business area. We recognize the Defense Business Operations Fund Strategy is separate and distinct from the general fund Strategy. However, we believe this decision demonstrates that DoD has recognized that a single accounting system can be used in multiple environments to support DoD accounting functions.

The recent management actions to designate CEFMS as the migratory accounting system for Army and to seek approval for CEFMS to be the

Correcting DoD General Fund Accounting Systems

migratory accounting system for the Air Force general fund accounting could result in DoD spending \$107 million on a single system rather than Service-unique systems. However, the DFAS Centers continue to pursue other system development efforts under their initial strategies, which will cost \$64.3 million (DFAS budgeted an additional \$15.9 million for CEFMS before the USD(C) approved CEFMS as the DFAS Indianapolis Center general fund migratory accounting system). We believe that since DFAS has acknowledged that the same accounting system can be used to support both Army and Air Force accounting needs, the USD(C) should complete the transformation of the initial Strategy and continue DoD-wide general fund accounting system standardization initiatives for the Navy, Marine Corps, and Defense agencies. Further responses to the Deputy CFO comments on our recommendations are at Appendix G.

We request that the USD(C) reconsider his position on our recommendations to cancel the existing Strategy and establish a single system approach. Specifically, we request the Comptroller to reconsider the advisability of further spending on general fund interim migratory accounting systems other than CEFMS.

3. Establish a centralized program management structure to provide direction and control over the selection and implementation of a DoD-wide system for general fund accounting.

Management Comments. The Deputy CFO partially concurred and stated that the DFAS was initiating action to create the necessary program management structure to fix responsibility over all DoD accounting systems. The DFAS issued a memorandum on April 17, 1996, announcing the establishment of the program management structure.

Audit Response. We consider the establishment of an enhanced program management structure by DFAS to be responsive. No further comments are necessary.

Part II - Additional Information

Appendix A. Scope, Methodology and Management Controls

Audit Work Performed. We limited our review of the General Fund Interim Migratory Accounting Strategy to systems used for general fund accounting. We interviewed personnel involved in establishing and carrying out the Strategy. We examined and analyzed plans established for each general fund interim migratory system. Our analysis included, but was not limited to, review of time frames established for:

- o correcting system deficiencies,
- o deploying corrections,
- o replacing legacy systems with interim migratory systems,
- o implementing the KARs, and
- o developing and implementing standard Budget Accounting Classification Code.

Additionally, we reviewed cost estimates provided by DFAS and analyzed budget data.

Audit Period, Standards, and Locations. We performed this economy and efficiency audit during the period April 1995 through October 1995. This audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Appendix I lists the organizations we visited or contacted.

Prior Report. No prior audit reports have specifically addressed the Interim Migratory Accounting Strategy established by the DFAS; however, IG, DoD, Report No. 95-301 summarized audit reports which identified deficiencies in accounting systems.

IG, DoD, Report No. 95-301 "Major Deficiencies Preventing Auditors from Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995. This report summarized the major deficiencies that prevented auditors from rendering audit opinions on Army and Air Force general fund financial statements. The report identified four major deficiencies.

- o Adequate accounting systems were not in place.
- o Assets were not reported adequately or properly valued.
- o Disbursements and collections were not adequately accounted for.
- o Contingent liabilities were not recognized or adequately disclosed.

The report also discussed corrective actions taken or under way. The report did not contain any recommendations for corrective action. The DFAS developed a two-phased approach to correct the inadequate accounting systems. Phase one is the General Fund Interim Migratory Accounting Strategy and phase two is the implementation of a single, DoD-wide general fund accounting system. Our audit focused on the plans established to accomplish the General Fund Interim Migratory Accounting Strategy.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the DFAS management controls as they related to the management of the general fund interim migratory accounting systems.

Adequacy of Management Controls. We identified a material management control weakness for the DFAS as defined by DoD Directive 5010.38. The DFAS had not established an effective program management structure for the Strategy to ensure that the Strategy was carried out consistently and that the interim migratory accounting systems would be compliant with the KARs. Recommendation 3, if implemented, will improve the management oversight of the Strategy. A copy of the report will be provided to the senior official responsible for management controls in the DFAS.

Adequacy of Management's Self-Evaluation. Although the individual KARs within the interim migratory accounting systems were identified as material weaknesses, DFAS did not identify the lack of a program management structure over the Strategy as a material control weakness. The DFAS identified the Strategy initiatives as corrective actions for the material weaknesses, and therefore, did not evaluate the Strategy as an assessable unit.

Appendix B. Other Matters of Interest

Pending Legislation. Pending legislation may force DoD to accelerate implementation of a single accounting system. The proposed Senate Bill 1130, "Accounting Standardization Act of 1995" was introduced in August 1995 and would have required each Federal agency to implement and maintain a uniform Federal accounting system beginning in FY 1997. Any agency found to be in substantial noncompliance with the requirements of a uniform Federal accounting system would have been subject to severe financial penalties. An alternative proposal removing agency financial penalties has been proposed by OMB. However, the deadline of FY 1997 remains in effect and management officials who have been found not to comply may be subject to disciplinary action or removed from office.

The accounting systems will be required to:

- o satisfy existing and future Federal accounting standards as recommended by the Federal Accounting Standards Advisory Board,
- o satisfy the United States Government Standard General Ledger, and
- o be consistent with the Federal financial management systems requirements.

Proposed Accounting Standard. A proposed Government Accounting standard may change the requirements for reporting assets which could affect the interim migratory accounting systems plan to meet the property accounting requirement. On August 28, 1995, the Federal Accounting Standards Advisory Board issued, as an exposure draft, "Supplementary Stewardship Reporting: Statement of Recommended Accounting Standards." The Federal Accounting Standards Advisory Board draft defines Stewardship Assets in the following categories.

- o Heritage Assets - These assets are property, plant, and equipment of historical, natural, cultural, or artistic significances.
- o Federal Mission Property, Plant, and Equipment - These assets are property, plant, and equipment integral to certain unique Federal missions.
- o Stewardship Land - This asset is land other than that acquired for or in connection with general property, plant, and equipment.

All stewardship information is deemed "required supplemental stewardship information" and will be reported on a separate report from the Statement of Financial Position.

The requirements of this draft standard could have a tremendous impact on the processing of stewardship asset information. The interim migratory accounting system managers have stated property accounting will require extensive changes to their systems. However, depending on Office of Management and Budget and General Accounting Office determinations regarding this exposure draft, the system managers may have to revise their plans for processing and reporting of property, plant, and equipment. The system managers may be spending time and funds unnecessarily to implement property accounting requirements that may change.

Appendix C. Descriptions of the Interim Migratory Accounting Systems

DFAS Indianapolis Center: Army Accounting

Headquarters Accounting and Reporting System. The HQARS is the department-level system for receiving, validating, and consolidating budget execution, expenditure, and general ledger balances from field offices and financial reporting to Treasury, OSD, OMB, Federal Agencies, Army, Defense Agencies, and other customers. The system maintains central clearance operations for transactions for others, transactions by others, interfund, and cross disbursing. The HQARS prepares annual financial statements as well as monthly status reports on budget execution and expenditure for Defense Business Operations Fund and non-Defense Business Operations Fund appropriations.

Program Budget Accounting System - Funds Distribution. The PBAS issues program and fund authorizations and funded reimbursable authority for customer orders, and controls reprogramming actions for Army and other DoD Components.

Standard Finance System. The STANFINS is a field-level general accounting and financial reporting system for execution of customer funds and operations. The STANFINS supports Army posts, camps, and stations. System functions include fund control, budget execution and expenditure accounting, cost accounting, general ledger accounting, accounting for accounts receivables and accounts payables, and financial reporting.

Standard Operations and Maintenance, Army Research and Development System. The SOMARDS is a field-level general accounting system that operates at inventory control points, laboratory commands, and research and development activities. SOMARDS performs fund control, general accounting, cost distribution, reimbursable order processing and order billing, standard and exception labor processing and reporting for the Operations and Maintenance and Research and Development accounts.

Civil Engineers Financial Management System. The CEFMS was developed by the Army Corps of Engineers as a financial management system that fully integrates Army Corps of Engineers business processes and supports the management of all types of work and funds. CEFMS eliminates manual processes and their supporting paperwork through electronic transmittal and storage of information and the electronic validation of personal "signatures" for authorization and accountability.

DFAS Cleveland Center: Navy Accounting

Centralized Expenditure and Reimbursement Processing System. The CERPS is the principal department-level automated information system involved in expenditure reporting and reconciliation. It edits, balances, consolidates, and reports expenditures, reimbursements, and disbursing officer accountability to Treasury. The CERPS also consolidates cash transaction data received from the DFAS Kansas City Center with Navy data.

Fund Administration and Standardized Document Automation. FASTDATA is a microcomputer-based data input system designed to generate source documents and accounting information at both the field level and fund administrator level. FASTDATA supports funds administration and budget execution, mostly for the Navy Reserve. FASTDATA also serves as a front-end for standard accounting systems supporting the Navy.

Standard Accounting and Reporting System. STARS is a financial management and accounting automated data processing system that comprises a series of computer modules. The computer modules interact to support Navy general fund accounting. The total system includes STARS Headquarters Claimant Module, STARS Claimant Accounting Module, the Field-Level accounting system, and a single bill-paying subsystem. STARS processes both field-level and department-level data.

DFAS Denver Center: Air Force Accounting

Departmental Cash Management System. The Denver Center will develop a new system, DCMS, to replace the Merged Accountability and Fund Reporting. DCMS will be the department-level accounting system which supports Air Force disbursements, reimbursements, collections, and receipts. DCMS will support all Air Force appropriations, including Defense Business Operations Funds and Foreign Military Sales.

General Ledger/Funds Control System. The GL/FC system will completely replace the General Accounting and Finance system as the core accounting system to process Air Force general fund accounting data. The GL/FC system has multiple interfaces to receive data from field-level finance systems and will act as a relational data base to convert transactions received from field-level systems into general ledger format. The GL/FC system will perform a combination of field-level and department-level processing and reporting.

Appendix C. Descriptions of the Interim Migratory Accounting Systems

DFAS Kansas City Center: Marine Corps Accounting

Standard Accounting and Budget Report System. SABRS supports accounting, budgeting, and reporting of the Operations and Maintenance appropriation, both regular and reserve, for the Marine Corps. It serves the Marine Corps financial community in performance of budgeting and managerial accounting duties. The system will be expanded to support accounting, budgeting, and reporting functions for other appropriations and funds supporting the Marine Corps and department-level processing and reporting to the DFAS Cleveland Center.

Appendix D. Key Accounting Requirements and Budget Accounting Classification Code

The DFAS established 13 Key Accounting Requirements, which all interim migratory accounting systems must implement as part of the Strategy. The interim migratory accounting systems must also use the standard Budget Accounting Classification Code.

Key Accounting Requirements

General Ledger Control and Financial Reporting. The system must have general ledger control and maintain an appropriate account structure approved by DoD. The general ledger account structure must follow the general ledger accounts for assets, liabilities, equity, expenses, losses, gains, transfers in and out, and financing sources. A double entry set of accounts must be maintained within the system to reflect budget authority, undelivered orders, obligations, expenditures, and other necessary accounts. The system must list both control and subsidiary general ledger accounts by title and numbers with definition of each account. Subsidiary accounts shall be reconciled to the control accounts at least monthly.

Full financial disclosure, accountability, adequate financial information, and reports must be provided for management purposes, and for necessary external reporting to OMB and Treasury. General ledger control and financial reports apply to all DoD systems except pay delivery systems, including stock, industrial, and trust funds.

Property and Inventory Accounting. The system must account in quantitative and monetary terms for the procurement, receipt, issue, and control of plant property, equipment, inventory, and material. Most acquisitions are recorded upon receipt of goods.

All property and equipment including ADP software with an initial acquisition cost of \$5000 and an estimated useful life of more than 2 years must be capitalized and reported at cost including amounts paid to install the assets in the proper form and place. If cost is unknown, the fair value of the fixed asset at the date of acquisition is estimated. Costs of additions, alterations, or replacements that extend the asset's useful life or service capacity are capitalized as fixed assets. Proper accounting controls exist for Government-owned property held and used by contractors.

Inventory accounting must entail accounting and control over the acquisition and issuance of materials, the comparison of physical inventories and records, the planning for procurement and utilization, and effective custody of the materials.

Appendix D. Key Accounting Requirements and Budget Accounting Classification Code

The property management system must include accounting controls over inventory ledgers that identify the item, its location, quantity, acquisition date, cost, and other information. Subsidiary property records are reconciled periodically to general ledger accounts. Physical controls include assigning specific individuals to inventory, placing physical safeguards on inventory, and periodically reconciling physical inventories to the accounting records.

Accounting for Receivables Including Advances. The system must account for all accounts receivables (any public indebtedness to the U.S. Government). Accounts receivable shall be recorded accurately and promptly to provide timely and reliable financial status. Accounts receivable shall be reduced upon collection of funds or when offset by previously established collateral. Uncollectible amounts should be promptly written off and the accounts receivable reduced accordingly. An allowance for uncollectible accounts and corresponding expenses must be established to provide full financial disclosure. The process should document the efforts made to collect delinquent debts (this includes compliance to the Debt Collection Act).

All collections shall be under general ledger accounting control. Cash shall be deposited as expeditiously as possible and immediately recorded in the accounting records.

Advances shall be recorded as assets until receipt of the goods or services or until contract terms are met. Accounting control must be maintained over advances made to employees, contractors, and all others. Advances must be promptly recorded and reconciled to general ledger control accounts.

Cost Accounting. Cost accounting must involve accounting analysis and reporting on costs of production of goods or services, or operation of programs, activities, functions, or organizational units. Cost accounting shall be provided in the accounting system if it is required in such instances as pricing decisions, productivity improvement decisions or measurement of performance, efficiency comparisons of like activities, and in industrial fund activities. For industrial fund activities, there is a DoD requirement for working capital funds to provide capital for industrial type and commercial type activities. Industrial fund accounting shall provide an effective means for controlling the cost of goods and services produced or furnished by industrial and commercial type activities. Cost accounting should be used in job order and process cost and in determining operating results. The primary components of DoD costs are labor and materials. However, other costs such as depreciation, amortization, unfunded liabilities such as severance pay, labor, manufacturing overhead, unallocated costs, etc., should be accumulated in the accounting system when needed.

Accrual Accounting. Accrual accounting must recognize the accountable aspects of financial transactions or events as they occur. Transactions may be recorded in accounting records as they occur or be adjusted to the accrual basis at each month end. Accrual accounting should be used to meet the specific needs of management and the Congress.

Appendix D. Key Accounting Requirements and Budget Accounting Classification Code

Amounts of accrued expenditures and revenues must be recorded only when supported by prescribed documentary evidence on the basis of initial documentation received. They are adjusted subsequently, if necessary, upon receipt of more accurate documentation. Examples of acceptable initial documentation received include receiving reports, bills of lading, job sheets, certified unpaid invoices and journal vouchers showing administrative estimates by responsible officials. This documentation shall represent a reflection of transactions and performance which actually occur.

When liabilities are incurred as work is performed rather than when deliveries are made, accruals must be recorded from performance reports for the affected accounting period. Unpaid personnel compensation and benefits which have been earned as of the end of the pay year must be accrued in full or in part, for example, the accrual of annual leave is material and should be recognized annually in the financial statements. Accrued payroll for civilian and military for salaries and wages, employer's share of fringe benefits, allowances, foreign nationals, severance pay, unfunded annual leave, annual leave, and retirement must be recorded and reconciled with actual payroll.

Military and Civilian Payroll Procedures. Wherever feasible, DoD will use modern technology in its computer systems to process payroll transactions. The payroll system will interface with the accounting system providing obligation and accrual data. The military and civilian payroll processes and procedures must be available to management, users, auditors, evaluators, etc.

Payroll systems must incorporate controls of both gross and net payroll amounts and payroll deductions to ensure smooth payroll processing action and to minimize incorrect payments. Procedures will be available to ensure that only authorized deductions are made from pay and all deductions are supported by proper documentation. Accounting entries for authorized deductions from pay must be verified. Timely, accurate, and complete individual and subsidiary records are maintained for leave accounts, employee benefits, compensated personnel absences, general benefits such as bonuses and cash allowances for quarters and subsistence, allotments by type and amounts, and other balances. Reconciliations of the general ledger and personnel records to payroll records will be performed.

Unpaid personnel compensation and benefits, including annual leave, which have been earned by employees as of the end of the pay year must be accrued in full. Accrued payroll will be reconciled with actual payroll.

Personal compensation and all employee benefit expenses (including federal contributions) shall be reported and disclosed separately in financial statements.

Automated controls will include predetermining limits on the computation of pay; accumulation and tests of zero balances; checks on sequence of records; counts of records; crossfoot balances; and other tests of the validity of the data or accuracy of the processing. Separation of duties is promoted by requiring vouchers authorizing payment to be certified before payment by a duly authorized certifying officer who does not compute amounts payable, maintain the payroll records, or distribute the paychecks.

Appendix D. Key Accounting Requirements and Budget Accounting Classification Code

System Controls (Fund and Internal)

Fund Control. The system must ensure obligations and expenditures do not exceed the amount appropriated, apportioned, reapportioned, allocated and allotted (Anti-Deficiency Act 31 U.S.C.). The system must provide a process and procedures for control over errors to ensure that once errors are detected: (1) corrections are made in a timely manner and reentered into the appropriate processing cycle; (2) corrections are made only once; and, (3) the correction itself is validated. The system must show the appropriations and funds to be accounted for and a description of the accounting entity's proposed fund distribution and control process. The system must have good fund control procedures to prevent untimely liquidation of obligations, unmatched expenditures, and undistributed disbursements.

Obligations must be recorded immediately. Fund control procedures must include fiscal year end Section 1311 Statement of Certification by a senior accounting official to ensure the validity of all obligations and unobligated balances. Administrative funds control must ensure that funds are used economically, efficiently, and only for properly authorized purposes.

Internal Controls. The system must have adequate internal controls to prevent, detect, and correct errors and irregularities that may occur throughout the system. Separation of duties and responsibilities must be maintained for initiating, authorizing, processing, recording, and reviewing transactions. Automated systems must have system security and integrity for authorized processing to include procedures and controls which protect hardware, software, and documentation from physical damage by accident, fire, flood, environmental hazards, and unauthorized access. Also, the system must have controls to prevent unauthorized use of confidential information.

Audit Trails. Audit trails permit tracing transactions through a system. Audit trails allow auditors or evaluators to ensure transactions are properly accumulated and correctly classified, coded and recorded in all affected accounts. Audit trails should allow a transaction to be traced from initiation through processing to final reports. In addition, good audit trails allow for the detection and tracing of rejected or suspended transactions, such as unmatched disbursements, for ultimate systematic correction in a reasonable time frame.

A fundamental requirement for any compliant accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records. All transactions, including those which are computer-generated and computer-processed, must be traceable to individual source records. Audit trails enable the tracing or replicating of a transaction from its source to the resulting record or report, and from the resulting record or report to the source. Items in source records necessary for audit-trail purposes include transaction type, record or account involved, amount, processing references, and identification of the preparer and approver of the transaction. A key test of the adequacy of an audit trail is whether tracing the transaction forward from the source or back from the result will permit verification of the amount recorded or reported.

Cash Procedures and Accounts Payable. The system shall be designed to ensure timely payments based on properly approved disbursement documents. Payment process and procedures must comply with the Prompt Payment Act. Cash discounts should be taken when determined to be financially advantageous to DoD.

Accounts payable are liabilities which should be recorded when goods or services are received. The liability reported in the annual financial statements shall reflect amounts due for goods and services received. For items manufactured by a contractor to specification, the accounting system shall reflect the appropriate payable, including contract retentions, for each accounting period based on requests for progress payments or on reasonable estimates of unbilled contractor performance. This shall be recorded in the proper accounting period.

Accounts payable for services performed by employees, contractors, and others shall be determined based on performance as evidenced by payroll records, progress billings, or other available data. Reasonable estimates of the cost of services performed before the end of a reporting period shall be made for annual financial reporting purposes in the absence of invoices or other available data. The system shall record the liability for goods and services purchased under a long-term contract in the period in which the goods or services are received or accepted.

System Documentation. The accounting system must have adequate system documentation which must include interfaces between accounting system segments. The detailed accounting system design package shall adequately document the functional user's accounting requirements. Such documentation must be available in users manuals, subsystem specification, etc. The detailed documentation must be comprehensive and shall include a combination of descriptions of processes, flowcharts and narrative description, diagrams, basic accounting entries including adjusting and closing entries, illustrations or samples of source documents for input, and sample outputs and reports. It shall also include internal controls incorporated within the accounting system. The documentation must demonstrate conformance with DoD requirements for adequate and reasonable documentation. The system documentation shall be in enough detail to be understood by computer personnel and/or system accountants assigned to develop applicable software or review process flow. It shall demonstrate readily to users, auditors, and evaluators the system's conceptual processes and procedures. The documentation should be in good order to facilitate maintenance operations and transaction testing. Good documentation would permit transaction testing which is designed to disclose whether valid transactions are processed properly, and whether the system rejects invalid transactions. The documentation shall have enough detail that a testing of the system could cover an entire transaction, from initial authorization through processing, posting to the accounts, and reporting. The documentation should indicate the mission, organization, description, objectives, financial management requirements, and boundaries of the system.

Appendix D. Key Accounting Requirements and Budget Accounting Classification Code

System Operations. Adequate organization and planning shall exist regarding systems operations to assure that financial management and accounting objectives are met in an economical and efficient manner. It must satisfy legal requirements, laws, regulations, accounting principles and standards, and related requirements as prescribed by GAO, OMB, and DoD. Financial systems shall contain all data required to achieve the purposes for which they were created and maintained. They shall also be as simple as possible, consistent with regulatory requirements and users' needs. The existing and planned hardware should be adequate to process efficiently current and projected future transaction volumes. There should be compatibility of existing and planned hardware to interface effectively with other systems. The system should conform to required DoD systems documentation requirements. The best of acceptably priced contemporary technology should be used. There should be detailed system operating and maintenance procedures. Also, there should be periodic system reviews to assure that the system is functioning as intended, required procedures are being followed, any operating problems are promptly identified and corrected, and possible state-of-the-art enhancements are incorporated as appropriate.

User Information Needs. User information needs and requirements as to quality, accuracy, timeliness, reliability, responsiveness of the system shall be adequate in response to program, financial managers, and other users. The system shall satisfy users as to their reporting requirements particularly as it relates to month end reports. The system must also satisfy user needs to facilitate their management decision making process. In addition, if there are departures in other KARs that adversely impact the users of the system, the materiality of these departures will be determined under this KAR.

Budgetary Accounting. The system shall support formulation of the budget, support budget requests, and control budget execution. Programming, budgeting, accounting, reporting classification, and coding structure should be uniform and consistent with each other and synchronized with the organizational structure so that actual activity reported within the accounting system can be compared with enacted budgets and support future budget formulation for each activity. Presidential, Congressional, and OMB decisions shall be recorded in the system, the financial management data and results shall be appropriately classified to track such decisions. The system shall record budget resources at the appropriate level and account for appropriations, reappropriations realized, apportionments, allocations, transfers, allotments of budget authority, customer orders accepted, reimbursables, and other appropriate accounts prescribed by DoD.

Budget Accounting Classification Code

The development and use of a standard Budget Accounting Classification Code (BACC) was approved by the Under Secretary of Defense (Comptroller), in September 1994. The BACC is designed to be a consistent structure for

Appendix D. Key Accounting Requirements and Budget Accounting Classification Code

financial data to ensure the reporting of comparable and consistent financial information. The BACC comprises three categories of financial information.

- o Fiduciary reporting information identifies such things as the Military Department, fiscal year, or appropriation involved.

- o Data needed to ensure that applicable information can be identified and referenced to other related information. This includes information such as the organization, document, or transaction to which the information applies.

- o Various other financial information, such as the type of cost involved that is needed for various informational, reporting, and management purposes.

Appendix E. Accounting System Deficiencies Identified By Audit

General Fund accounting system deficiencies that were identified in FY 1993 and FY 1994 audit reports are summarized below:

Army General Fund Financial Statements

o Using an Integrated, Double-Entry, Transaction-Driven General Ledger System. The DFAS Indianapolis Center was not in compliance with the DoD requirement to use an integrated standard general ledger to produce the Army financial statements.

o Using Automated Subsidiary Ledgers. Accounting offices could not provide auditors with a complete set of automated subsidiary records for amounts reported to the DFAS Indianapolis Center.

o Reporting Fixed Assets. Lacking a complete general ledger, the dollar values reported for fixed assets in the Army financial statements were derived from systems designed to manage or physically account for these items. These management systems did not interface with the accounting systems, and did not always contain complete and accurate data.

o Posting Equipment Purchases. Equipment purchases were not properly posted to the general ledger because the systems did not recognize such transactions.

o Recording Accounts Payable. Accounting offices did not record accounts payables when activities received goods and services from contractors because some logistics systems were not integrated with the accounting system.

o Understanding the General Ledger Concept. Accounting offices did not understand their general ledgers because accounting procedures focused on budget execution rather than the general ledger.

o Identifying Abnormal Balances. Auditors' reviews of general ledger balances showed that many of the accounts had abnormal balances that accounting personnel were not aware existed.

o Posting Unearned Revenue and Advance Payments. Accounts receivable and unearned revenue were overstated on the Army FY 1994 Statement of Financial Position because the accounting system could not distinguish between earnings from orders paid in advance and earnings on orders not paid in advance.

o Extracting Data on Wholesale Equipment and Secondary Items. The system application used to extract data from the Commodity Command Standard System was flawed, and prevented wholesale equipment and secondary items owned by project managers from being reported in the general ledger.

Air Force General Fund Financial Statements

o Using a Transaction-Driven General Ledger. The Air Force did not use a transaction-driven general ledger to provide a single source for compiling and reporting financial information for use in preparing financial statements.

o Dual Reporting of Inventories. Auditors identified dual reporting of inventories in FY 1993 because the Air Force and the DFAS Denver Center erroneously included the inventory data in two accounts, both of which were reported on the financial statements.

o Interfacing with the Inventory Accounting System for Assets Held by Others. The Air Force inventory accounting system and the Army system did not interface to allow for the reporting of assets held by others.

o Status System Interfacing With the Central Procurement Accounting System. Automated systems that controlled data on contracts, obligations, and payments did not properly interface with the Air Force central procurement accounting system.

o Capturing Military Strategic and Tactical Relay Satellites. Air Force accounting systems did not include \$1.45 billion of Military Strategic and Tactical Relay Satellites in a general ledger balance forwarded to the DFAS Denver Center.

o Capturing Engine Module Assets. Air Force accounting systems did not include \$914 million of uninstalled engine modules and \$186 million of contractor logistics support engines in the financial statements. The accounting systems omitted engine modules from financial statement reporting because of untimely suspense dates.

o Valuing Property, Plant, and Equipment. Auditors could not validate \$227.6 billion of property, plant, and equipment because the accounting systems did not accumulate, account for, and report the acquisition cost of military equipment.

o Valuing Operating Materials and Supplies. Auditors could not validate \$32.3 billion of operating materials and supplies because the accounting systems did not accumulate, account for, and report the acquisition cost of operating materials and supplies.

Appendix E. Accounting System Deficiencies Identified By Audit

o Identifying Variances in Equipment-on-Loan Balances. The accounting system's internal control structure did not prevent variances of \$18 million in equipment-on-loan balances between the FY 1992 and FY 1993 financial statements.

o Identifying Errors in Construction-in-Progress Balances. Accounting systems processes and controls did not identify errors in account balances caused by processing of vouchers.

Appendix F. Costs of Interim Migratory Accounting Strategy

(In Millions)

System	Total Cost To Complete	Expended FY 1995	Cost Avoidance
HQARS	\$ 8.3	\$ 0	\$ 8.3
PBAS	3.0	0	3.0
STANFINS ¹	18.7	3.4	15.3
SOMARDS	8.2	1.4	6.8
CEFMS ²	19.4	3.5	15.9
CERPS	12.5	1.2	11.3
FASTDATA	4.2	0.7	3.5
STARS	42.6	15.4	27.2
DFAS-Denver	82.0	3.4	78.6
DCMS	7.5	2.5	5.0
SABRS	<u>10.0</u>	<u>4.0</u>	<u>6.0</u>
Subtotal	\$216.4	\$35.5	\$180.9
GAFS ³			<u>6.3</u>
Total			\$187.2

¹During our audit, STANFINS was deleted as an interim migratory accounting system.

²CEFMS is being tested by the DFAS Indianapolis Center as a potential field-level system to support Army accounting.

³General Accounting and Finance System (GAFS) is not an interim migratory accounting system; however, the DFAS Denver Center budget included funds for FY 1996 and FY 1997. The DFAS Denver Center personnel stated these funds will be redirected to be spent on the GLFC system.

Note: Cost to complete and amount expended in FY 1995 covers both objectives of the Strategy: to decrease the number of accounting systems used to support the individual Services and redesign, modify, and deploy the interim migratory accounting systems selected for retention.

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the Comments

Management Comments on the Recommendations. The Deputy CFO nonconcurred with our recommendations to cancel the current Strategy and establish a single system approach for general fund accounting. A summary of his comments is in Part I of this report. The full text of his comments are at Part III. We provide our audit response below.

Audit Responses. We disagree with the Deputy CFO position of not moving forward with a single system approach and his defense of the initial Strategy. The multiple system, Service-unique Strategy was unstable and changed courses continually as DoD searched for and evaluated alternative approaches to correct the accounting system problems. This indecisiveness put DoD at risk as it continued to experience major delays in implementing a compliant, DoD-wide general fund accounting system in support of an overall DoD financial management system. The assumption made when the Strategy was developed was that a limited amount of time and funds would be needed to correct the general fund interim migratory accounting systems. However, extensive amounts of time and funds were required to redesign and modify the selected interim migratory accounting systems. We therefore believe that the initial Strategy proved to be an ineffective approach to correct DoD general fund accounting system problems. Scarce resources, including funds, management talent, and technical and functional expertise, were divided among four separate, unique, stand-alone attempts to redesign and modify nine Service-unique fragmented accounting systems instead of focused on a concentrated effort to solve what is really a DoD problem -- not a Service-unique problem. Based on the results of the audit, we remain convinced that:

- o The initial Strategy was unstable.
- o New accounting systems were required under the initial Strategy -- not merely minor fixes to existing noncompliant accounting systems.
- o Satisfactory progress was not being made in enhancing the initially selected interim migratory accounting systems.
- o The Strategy had not yet resulted in any savings.
- o The benefits of the Strategy regarding the elimination of legacy systems can also be achieved under the single system approach.
- o The cost of the initial Strategy would have continued to grow and could not be estimated.

Stability of the Strategy. The initial Strategy proved unstable. DoD has recognized the shortcomings of the Strategy and is in the process of identifying alternative approaches to those initially developed for the Strategy.

However, little progress can be made to produce a compliant accounting system until DoD identifies a plan-of-action and focuses its resources. Since the Deputy CFO issued his comments, the initial Strategy developed by the DFAS Indianapolis Center was altered. On May 28, 1996, the USD(C) directed the DFAS Indianapolis Center to develop CEFMS as the single general fund migratory accounting system to support DFAS Indianapolis Center customers. In addition, the DFAS Denver Center completed preliminary tests of CEFMS that concluded that CEFMS can support Air Force general fund accounting. The DFAS Denver Center is in the process of obtaining approval to replace GLFC with CEFMS as the migratory accounting system to support Air Force general fund accounting. The realistic time frames and cost estimates to complete the Strategy cannot be identified until final system selections are made and detailed development and implementation plans are established.

New Accounting Systems Required Under the Strategy -- Not Piecemeal Fixes. The Deputy CFO understates the conditions of the interim migratory accounting systems and the extensive redesigns and modifications required to bring them into compliance with the 13 KARs. The interim migratory accounting systems were not designed to meet today's requirements and mere enhancements will not bring them into compliance. To be compliant, the selected accounting systems will require complete redesign and will be, in essence, new accounting systems. We believe the current Strategy places DoD at risk because it is directed at attempting to redesign four fragmented, non-integrated, Service-unique suites of accounting systems to perform duplicative functions.

Progress Not Being Made in Enhancing Initially Selected Migratory Accounting Systems. We disagree with the Deputy CFO statement that the interim migratory accounting systems are being continuously enhanced. The DFAS Centers are still evaluating general fund accounting systems and are not making system changes to correct deficiencies for compliance with the 13 KARs. Until recently, DoD has not identified a stable approach for the Strategy because the DFAS Centers in Indianapolis and Denver were reconsidering their accounting system selections. This could require preparing and executing new plans. Although Strategy implementation was to begin in October 1994, DoD has made little or no progress in correcting the accounting system deficiencies for compliance with the 13 KARs.

Savings Associated with the Strategy. We disagree with the Deputy CFO statement that the Strategy has resulted in savings. The data used to support this position was generated by comparing budgeted funds by fiscal year. DoD estimated recurring operating savings beginning in FY 1996 to be \$14.6 million from the elimination of some legacy systems. However, DoD did not net their estimated \$14.6 million operating savings with the \$15.3 million capital funds spent to eliminate the legacy systems and replace them with an interim migratory accounting system. Also, the operating savings are only a budget estimate and are not actual figures. Furthermore, the estimated savings do not include additional operating costs that will be incurred as a result of the interim migratory accounting systems supporting additional functions and customers. Therefore, no savings have been generated to date.

Benefits Associated with the Strategy. Benefits associated with eliminating legacy systems by collapsing them into selected interim migratory accounting systems can be achieved under a single system approach. DoD identified the Strategy as the incremental approach that produces short-, medium-, and long-term benefits. The short- and medium-term benefits that DoD associates with the Strategy result from eliminating legacy systems. DoD has made some progress that will result in future savings by eliminating legacy systems. The general fund interim migratory accounting systems included in our audit have replaced 11 legacy systems. The elimination of these legacy systems are estimated to generate recurring savings beginning in FY 1997. We support DoD efforts in reducing the number of general fund accounting systems and agree that DoD should continue to eliminate legacy systems where identified net short and medium savings will occur. However, DoD can continue efforts to reduce the number of general fund accounting systems while pursuing the implementation of a single DoD-wide general fund accounting system instead of attempting to redesign multiple, Service-unique, general fund accounting systems.

Cost of the Strategy. We do not agree with the Deputy CFO that the Strategy was the most cost effective approach to correct DoD general fund accounting system problems. DoD has yet to establish a stable Strategy in order to estimate realistic costs for correcting four suites of Service-unique, noncompliant general fund interim migratory accounting systems. These costs will continue to increase as other changes are identified.

Management Comments on the Finding. The Deputy CFO took exception with various facts and conclusions in the draft report. His comments and our audit responses follow.

Management Comments on Accounting System Deficiencies. The Deputy CFO took exception to the conclusion that accounting systems deficiencies within the DoD have been identified as the major reason that accounting information is unreliable and unsupported. He stated that the report failed to mention and compare the condition of general fund accounting systems before 1991 to the current condition of these systems. Prior to the establishment of the DFAS in 1991, general fund accounting in the Department was being performed at many different locations, with many different accounting systems. The majority of the general fund accounting systems did not meet the requirements of the Federal Managers' Financial Integrity Act, the CFO Act, and other Federal laws and regulations. As a first step in fixing these problems, the DFAS identified, documented, and reported the systems shortcomings, and then devised necessary corrective actions. Also, the DFAS developed the first comprehensive inventory of DoD automated accounting systems. Progress is being made by the DFAS as is evidenced by the fact that the inventory has gone from 91 systems in 1991 to 77 systems in 1995. The reduction of 14 systems is generating annual recurring cost savings of \$26.4 million.

Audit Response. Regardless of the conditions of the accounting systems prior to 1991, the fact remains that accounting system deficiencies have been identified by both the auditing and accounting communities as the major reason why accounting information is unreliable and unsupported. IG, DoD,

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the Comments

Report 95-301, August 29, 1995, "Major Deficiencies Preventing Auditors from Rendering Audit Opinions on DoD General Fund Financial Statements" summarized prior audit results from financial statement audits performed by the IG, DoD; Army Audit Agency, and Air Force Audit Agency on general fund financial statements. This report identified four categories of problems that prevented auditors from rendering audit opinions on general fund financial statements since 1990, when the first disclaimer of opinion was issued on the FY 1988 Air Force consolidated financial statements. Inadequate accounting systems was identified as the number one reason preventing auditors from expressing an opinion regarding the reliability of the financial statements. DFAS established the Strategy to correct the identified accounting system deficiencies. As noted in this report, DFAS has made progress in correcting the accounting system deficiencies. However, until the general fund accounting systems are corrected, accounting system deficiencies will remain the major reason why accounting information is unreliable and unsupported.

We agree with the management comments that the general fund accounting systems previously managed by the Services did not meet various Federal Managers' Financial Integrity Act and CFO requirements. However, we disagree that DFAS has identified, documented, and reported all the accounting system shortcomings and devised corrective actions to improve and modify these accounting systems. Unreported problems continue to appear in our audit reports on DoD CFO financial statements, including breakdowns in management controls within the existing accounting systems that are used to prepare the CFO financial statements. Until recently, DFAS was still evaluating accounting systems to either make final selections for the accounting system supporting the DFAS Centers in Indianapolis and Denver or identify the necessary redesign and modifications to the accounting systems supporting the DFAS Center in Cleveland. During May 1996, DFAS replaced STANFINS and SOMARDS with CEFMS as the selected migratory systems for Army general fund accounting. Also during May 1996, DFAS was seeking approval to replace the GLFC system with CEFMS as the migratory system for Air Force general fund accounting. As stated in the report, we acknowledge that DFAS made progress in reducing the number of accounting systems. We also acknowledge that a future reduction in annual operating expenses should occur.

Management Comments on CIM and DMRD 910. The Deputy CFO took exception to the conclusion that the Service-unique approach used for the Strategy does not fully support CIM initiatives or DMRD 910. The CIM initiatives and the DMRD 910 involved complex management operations that required extensive planning and coordinating actions. DoD is continuing with an organized, planned approach that complements the CIM initiatives and DMRD 910 and fulfills the intent of those endeavors in an orderly phased approach while minimizing any inherent risk. At the outset, the DFAS goal was to develop, within 5 years, a single, integrated DoD general accounting fund system. Because the existing accounting systems were designed for different functions (for example, budget and funds control), and to support a variety of different business practices, that goal was unattainable. The DFAS now is using a three-part, incremental strategy that is reducing the number of systems using interim migratory systems, making selective investments in interim migratory systems, and making further consolidations to even fewer

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systems. In addition to developing coherent, DoD-wide goals and strategies, the DFAS has compiled a reliable inventory of systems and completed functional and technical reviews of the major systems to identify strengths, weaknesses, and high risk areas. On a selective basis, the DFAS has begun to enhance interim migratory systems to be compliant with applicable laws and regulations, and to improve performance at lower costs. Also, the DFAS has begun to add state-of-the-art electronic communications and data exchange capabilities to these systems.

Audit Response. We agree that both the CIM and DMRD 910 are promising management initiatives. However, the Strategy did not allow DoD to fully meet the objectives of these initiatives. Both CIM and DMRD 910 were aimed at standardizing accounting systems to eliminate redundancy. Although the Strategy was aimed at reducing the number of general fund accounting systems within each Service, it would have resulted in a duplication of system development efforts and create unique and redundant general fund accounting systems supporting each of the Services. This was not the intent of the CIM and DMRD 910. We also disagree with the Deputy CFO position that DFAS has begun to enhance the general fund interim migratory accounting systems. Until recently (see audit response in management comments on accounting system deficiencies), DFAS was still evaluating accounting systems to either make final selections for the accounting systems supporting the DFAS Centers in Indianapolis and Denver or identifying the necessary redesigns and modifications to the accounting systems supporting the DFAS Center at Cleveland. DFAS has made limited progress in correcting interim migratory accounting systems for compliance with the KARs.

Management Comments on Funds Expended to Modify General Fund Accounting Systems During FY 1995. The Deputy CFO stated the report implies that DFAS has received few, if any, benefits from the \$43 million obligated to modify general fund accounting systems in FY 1995. The draft audit report did not recognize or identify the costs associated with systems changes required to comply with legislative provisions or changes as a result of regulatory requirements from the Office of the Secretary of Defense and other external organizations such as the Office of Management and Budget, the Internal Revenue Service, and the Department of the Treasury. These investment costs cannot be overlooked. Furthermore, the report does not identify or address the cost savings and other benefits which have resulted from the modifications to the general fund accounting systems.

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The Deputy CFO questioned the estimated cost avoidance of at least \$187 million. There are several reasons to disagree with this estimate. First, the budget request includes funds for modifications required to comply with new congressional mandates or changes in DoD policy. Second, the report does not recognize the near term savings in the DFAS operating costs that will occur from the implementation of interim migratory accounting systems. Approximately one-third of the \$43 million cited in the report was for initiatives that will reduce the DFAS operating costs this year. For example, in FY 1995, the deployment of STARS to those Navy sites operating the Integrated Disbursing and Accounting Financial Management System is projected to reduce the DFAS operating costs by \$14.3 million per year, starting in FY 1996. Other benefits also are realized, such as improved compliance and better reporting.

Audit Response. The modifications to the general fund interim migratory accounting systems to comply with legislation, such as prevalidation, are outside the scope of the Strategy. The Strategy encompasses two main objectives: to decrease the number of general fund accounting systems and to correct the remaining selected interim migratory accounting system deficiencies for compliance with the 13 KARs. Prevalidation modifications are driven by a specific public law that initially required implementation of internal controls over disbursements greater than \$5 million. Although, when fully implemented, prevalidation modifications are expected to play a key role in improving the integrity of disbursement data as it relates to the corresponding obligation, these internal controls are not directly related to the 13 KARs driving the Strategy.

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We disagree with the Deputy CFO position that the Strategy has already resulted in savings. While decreasing the number of general fund accounting systems may eventually result in savings, no savings have been generated to date. The Deputy CFO estimated recurring operating savings beginning in FY 1996 of \$14.6 million by eliminating legacy systems. However, the Deputy CFO failed to net the estimated \$14.6 million operating savings with the \$15.3 million capital funds spent to eliminate the legacy systems and replace them with an interim migratory accounting system. Also, the data used to support this position was generated by comparing budgeted funds by fiscal year. The \$14.6 million of estimated operating savings are only budget estimates and are not actual savings. In addition, the \$14.6 million of estimated operating savings are not netted against additional operating costs to be incurred as a result of the interim migratory accounting systems support of additional functions and customers once supported by the legacy accounting systems. Furthermore, even if the \$14.6 million was accurate, the expected break-even is not estimated to take place until FY 1997. Therefore, no savings have been generated to date. We support the USD(C) efforts to reduce the number of general fund accounting systems and agree that the USD(C) should continue to eliminate legacy accounting systems where identified net savings will occur.

The Deputy CFO does not agree with our conclusion that developing and implementing a single DoD-wide general fund accounting system in lieu of attempting to redesign and modify four Service-unique suites of noncompliant accounting systems could result in monetary benefits of \$187 million. However, DoD continues to spend funds evaluating potential Service-unique accounting system concepts and collapsing a limited number of noncompliant accounting systems into other Service-unique, noncompliant accounting systems. This practice does not move DoD closer to a single, integrated, core accounting system. In addition, the reasons given by the Deputy CFO for disagreeing are questionable. While budget requests may include funds for modifications required to comply with new congressional mandates and changes in DoD policy, we did not include them in our computation of the \$187 million potential monetary benefit. For further discussion, see Appendix H.

Management Comments on the Defense Business Operations Fund Interim Migratory Accounting Strategy. The Deputy CFO stated that the IG, DoD, participated, as an observer, in the Defense Business Operations Fund Corporate Board multisystem decision process for the Defense Business Operations Fund interim migratory strategy approval. This strategy also included a different system for each business area and Military Department. Therefore, the IG, DoD, should be familiar with the complications of moving to a single system.

Audit Response. The audit only focused on the general fund Strategy. Although both Strategies have the same objectives, the general fund interim migratory accounting systems generally perform only accounting functions. In contrast, the majority of Defense Business Operations Fund interim migratory accounting systems perform a mix of logistics and accounting functions. The audit report does not present a cost and benefit analysis comparing the initial redundant Service-unique approach to a DoD-wide single system approach because one is not needed. As stated in the report, our reasoning was based on the DFAS plan to implement a single DoD-wide general fund accounting system

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after initially migrating to their four suites of Service-unique interim migratory accounting systems. The funds to be spent on the DoD-wide accounting system would obviously be in addition to the funds spent on attempts to migrate to four suites of duplicate Service-unique accounting systems. Attempting to redesign and modify four suites of multiple Service-unique accounting systems, of which only one, if any, will eventually be selected for the DoD-wide core general fund accounting system is simply not prudent.

Management Comments on the Strategy's Progress. The Deputy CFO took exception to the conclusion that the DFAS has already spent \$36 million in FY 1995 on interim migratory accounting systems that resulted in little or no progress in actually correcting accounting system deficiencies. The Deputy CFO pointed out major accomplishments in the general fund accounting area, since 1991, that are not noted in the IG, DoD, report.

Audit Response. We agree with the management comments that DoD has several on-going initiatives to improve financial management.

Management Comments on Initial Studies and Evaluations of General Fund Accounting Systems. The Deputy CFO took exception to our discussion of strategy background: initial studies and evaluations of general fund accounting systems. The DFAS began reviewing accounting systems in August 1991 to develop a plan to decrease the number of DoD accounting systems and to correct system deficiencies. However, the DFAS did not establish the Strategy until December 1993. The Deputy CFO stated that the information presented in this paragraph is only partially correct. The discussion overlooks and simplifies some of the factors that led to changes in the Department's strategy from its inception in 1991 to the present. For example, one factor was the complex efforts of improving accounting systems and operations, and at the same time, reducing overall organization costs. Accordingly, the DFAS is in the process of standardizing systems and consolidating operations at newly created operating locations.

Audit Response. We agree that attempting to redesign and modify DoD accounting systems, improving finance and accounting operations, and attempting to reduce overall DFAS costs -- all at the same time -- is a monumental effort. However, we believe that DoD can continue its efforts to reduce organizational costs and improve its finance and accounting operations while pursuing the implementation of a single DoD-wide general fund accounting system. We support DoD efforts to reduce the number of general fund accounting systems and agree that DoD should continue to eliminate legacy systems where identified net savings will occur. We also believe DoD can continue efforts to reduce the number of general fund accounting systems while implementing a single DoD-wide general fund accounting system.

Management Comments on Duplication of Efforts in Modifying Accounting Systems. The Deputy CFO took exception with the conclusion that the current Strategy to modify DoD general fund accounting systems results in a duplication of effort and that the DFAS Centers were unnecessarily spending resources to duplicate development and correction of multiple suites of accounting systems to perform the same general fund accounting functions for the individual Services

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and Marine Corps. As stated previously, a significant portion of the funds expended by the DFAS were necessary to modify DoD accounting systems to meet statutory and regulatory requirements and to support the consolidation of accounting operations.

Audit Response. We recognize that a portion of the funds expended by DFAS in FY 1995 was for initiatives outside the Strategy. However, our audit report addresses only issues specific to the Strategy. We identified \$36 million as the amount spent in FY 1995 that was directly related to the Strategy: to decrease the number of accounting systems and to modify the accounting systems selected for retention for compliance with the 13 KARs. We met with DFAS budget personnel to determine the amount of funds spent in FY 1995 on the general fund interim migratory accounting systems. DFAS provided budget information in two categories: funds directly related to the Strategy and funds related to initiatives outside the Strategy (\$36 million dollars related to the Strategy; \$7 million dollars related to other initiatives). We only cite the \$36 million relating to the Strategy in our audit report.

Management Comments on Separate Approaches Developed for the Strategy. The Deputy CFO took exception with the conclusion that as part of the Strategy, the DFAS Centers developed separate, duplicative approaches to solve problems inherent in their selected suites of interim migratory accounting systems. The Deputy CFO stated different approaches were necessary in the preliminary phases of the Strategy because of particular circumstances that were different for each of the systems. Each general funds accounting system has its own set of unique criteria and varied level of complete requirements. For example, existing DFAS-Denver Center general accounting systems lack general ledger control. Thus, corrective action for those systems will be different from the approaches taken by other DFAS Centers that operate accounting systems already having adequate general ledger control.

Audit Response. We remain convinced that the Strategy was flawed.

Management Comments on Incomplete Interim Migratory Accounting System Plans. The Deputy CFO took exception to our conclusion that the interim migratory accounting systems plans were either nonexistent or incomplete and that the Strategy had not progressed beyond the accounting system evaluation phase. The Deputy CFO stated detailed strategic business plans were completed for all interim migration general accounting systems by December 1, 1995. The principal objective of the Strategy is to reduce the number of legacy systems. During FY 1995, plans were executed which eliminated eight legacy systems. However, FY 1995 was used essentially as a year of analysis to determine the system changes required for the selected interim migratory systems in order to correct compliance issues. Fiscal Year 1995 also marked the year the Strategy's objectives were addressed and the execution of the Strategy commenced. For completeness, the report should add that the Department currently is reviewing Defense agency accounting systems to review their requirements and develop a strategy consistent with the overall DoD accounting vision.

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Audit Response. Our review confirmed that the Strategy plans were incomplete and that the Strategy had not progressed beyond the accounting system evaluation phase. DFAS has yet to implement a stable Strategy from which detailed plans can be established. The Strategy is still in the system evaluation phase. Until recently, the DFAS Indianapolis Center had not made a final system selection. On May 28, 1996, the USD(C) directed the DFAS Indianapolis Center to develop CEFMS as the general fund migratory accounting system to support DFAS Indianapolis customers. In addition, the DFAS Denver Center recently completed preliminary tests of CEFMS that concluded CEFMS could meet Air Force general fund accounting needs. Also, the DFAS was in the process of obtaining approval to replace the GLFC interim migratory accounting system with CEFMS as the migratory system for Air Force general fund accounting. These actions will require establishment of completely new plans for both of the DFAS Centers. The DFAS Center that supports the Navy has made a selection, but does not yet know what modifications are needed to meet the 13 KARs. Furthermore, the STARS program office at the DFAS Cleveland Center is still evaluating the STARS system to identify the required changes to meet the KARs. Therefore, we believe our conclusion from the draft audit report is valid.

The Strategy has two main objectives: to reduce the number of general fund accounting systems and to correct accounting system deficiencies for compliance with the 13 KARs. We agree that DoD has made progress in eliminating legacy systems. However, DoD has made limited progress in correcting accounting system deficiencies. In addition, we acknowledge that DFAS had recently begun to identify the Defense agency unique accounting systems.

Management Comments on Accounting System Selections at the DFAS Indianapolis Center. The Deputy took exception with our conclusion regarding the selection of systems at the DFAS Indianapolis Center. The STANFINS, SOMARDS, and CEFMS situation referred to at the DFAS Indianapolis Center is not a case of indecision -- as noted in the report -- but merely reflects the fact that IG, DoD, auditors were present during the actual DFAS process of alternative analysis and evaluation which is being considered as part of the total process. After the evaluation of the requirements to modify STANFINS, the DFAS concluded that a SOMARDS or CEFMS alternative should be reviewed. It was decided that the selection of either of those systems would be better than modifying STANFINS. Therefore, the DFAS strategy was modified to reflect the change. The current test of the CEFMS software in a STANFINS environment will be completed by May 1996. This process has always been considered a single evolutionary whole process.

Audit Response. The Deputy CFO portrayal of the selection and deselection of STANFINS as an interim migratory accounting system is inaccurate. We found no evidence of an actual alternative analysis that compared STANFINS and CEFMS. STANFINS was an interim migratory accounting system and underwent \$3.4 million worth of modifications to meet Strategy requirements before DFAS made the decision to brown-out the system. The brown-out decision was made before the DFAS Indianapolis Center started their test of CEFMS to determine whether it could support accounting functions at STANFINS sites.

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the comments

Management Comments on the Strategy Completion Date. The Deputy CFO stated that the DFAS Headquarters informed the interim migratory accounting system project offices at the DFAS Centers that the USD(C) mandated the strategy be completed by the end of FY 1997, but recently changed the completion date to September 30, 2000. The time frames for this Strategy were originally set by a Secretary of Defense memorandum dated October 13, 1993. That memorandum specified selection and transition of migration systems within three and a half years. However, in a recent draft Assistant Secretary of Defense (Command, Control, Communication, and Intelligence) memorandum, subject: Information and Technology Modernization, it appears that the three and a half year requirement for migration systems selection and implementation is being removed. The Assistant Secretary of Defense (Command, Control, Communication, and Intelligence) memorandum being circulated for comment focuses future efforts on process improvement and the most direct support to the war fighters, including the Global Command and Control System and the Global Combat Support System. It requires an overarching strategy for information management in each functional areas and a better use of adaptive systems approaches to enable continued improvement of business processes. These new policies will be promulgated in appropriated issuances.

Audit Response. The assumption made when the Strategy was developed was that the interim migratory accounting systems could be corrected with limited time and funds. However, the accounting systems initially selected for the Strategy were never designed to meet today's requirements and will require extensive redesigns and major modifications to be compliant with the 13 KARs. DoD recognizes that the time frames to correct accounting system problems are much greater than initially estimated. DoD has yet to implement a stable Strategy so that realistic time frames can be identified.

Management Comments on Implementing a Single DoD-Wide General Fund Accounting System. The Deputy CFO took exception to the conclusion that the uncertainty and conflict surrounding the DFAS selection of an interim migratory accounting system at the DFAS Indianapolis Center to support the Army could be avoided. The Deputy CFO also took exception to the conclusion that significant savings to Army customers could be achieved by canceling the Strategy and selecting and implementing a single DoD-wide general fund accounting system. In addition, the Deputy CFO took exception to our conclusion that DFAS can select and implement a single DoD-wide general fund accounting system that would allow DFAS to meet multiple long-term goals to improve finance and accounting within DoD. The draft audit report offers nothing to support this statement and conclusion. This office is unaware of any DoD system (financial or nonfinancial) that has been developed and deployed in the manner suggested by the report. The IG, DoD, recommended solution offers an untested and extremely risky approach. The current (incremental) Strategy and approach by the DFAS is the most effective, least risky, and least costly approach in the long run considering the short term benefits and offset in savings. However, the Deputy CFO agreed that a single system is a worthy goal.

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the Comments

Audit Response. A single system approach is the appropriate and prudent way to proceed from here. A single general fund accounting system provides many advantages over a multiple, Service-unique system approach and is a requirement for an overall DoD financial management system. A single general fund accounting system would allow DoD to meet multiple long-term goals involving business process reengineering, systems standardization, DoD CIM initiatives, and DMRD 910 objectives. As DoD continues to identify migratory systems for other functional areas, such as pay, a single interface can be developed into the standard general fund accounting system instead of multiple interfaces with Service-unique accounting systems. In addition, a single DoD-wide general fund accounting system will allow DoD to more easily strengthen internal controls over financial data. Finally, as system modifications are required to comply with new legislation or DoD policy changes, DoD will only have to fund these changes into one system instead of multiple, Service-unique accounting systems.

We disagree with the Deputy CFO position that the Strategy was the most effective, least risky, and least costly approach to correct DoD general fund accounting system problems. Recent actions by the USD(C) and DFAS conflict with the Deputy CFO comments. As previously stated, the USD(C) has directed DFAS to develop CEFMS as the general fund migratory accounting system to support DFAS Indianapolis customers and the DFAS Denver Center is now in the process of obtaining approval to replace the GLFC interim migratory system with CEFMS as the migratory system for Air Force general fund accounting. Although we believe that DoD is moving towards a single system approach, the current Strategy has not been cancelled and the DFAS Centers in Cleveland and Kansas City continue to pursue their initial strategies. We believe DoD would minimize its risk by focusing its resources on redesigning one general fund accounting system in support of an overall DoD financial management system. In addition, DoD cannot support the statement that the Strategy was the most cost effective approach because DoD never accurately costed out the Strategy.

Management Comments on the Costs of the DFAS Denver Center's Interim Migratory Accounting Strategy. The net cost savings for both the GLFC and DCMS is \$77.9 million. The study concept also presents hardware costs and savings for converting these systems. The issue of property was being addressed via the study of the Transfer of Management Responsibility of Systems, which gives the Air Force the guidance necessary to upgrade its property systems to general ledger requirements. This concept also accommodates the pending Financial Accounting Standards Advisory Board guidance which would result in a low cost for achieving property accounting. The GLFC plan does not include any Defense Business Operations Fund costs because the costs were extracted from the original \$145 million estimate after separate studies for the Defense Business Operations Fund were undertaken. The \$145 million estimate included property (a cost the Air Force would bear--\$60 million) and Defense Business Operations Fund (\$20 million) leaving a baseline of \$64 million. The savings of \$77.9 million results from increased functionality and increased efficiency. There is no reference in the draft audit report to the cost to the Air Force or the Department to establish these functions in a new or existing (non-Air Force) accounting system.

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the comments

Audit Response. The DFAS Denver Center's cost estimated in their Strategy's plan is incomplete. The DFAS Denver Center cannot identify the costs associated with redesigning the GLFC because their plans do not address all of the KARs. The plans do not include the costs associated with property accounting, inventory accounting, and cost accounting, and only partially address system controls and budgetary accounting. The DFAS Denver Center plans state that these functions are outside the scope of the GLFC. However, to produce a compliant suite of systems to support the Air Force, these functions will have to be performed by other systems. For example, the DFAS Denver Center plans to interface with cost accounting systems such as the Job Order Cost Accounting System. These additional systems are not designated as interim migratory accounting systems nor are the modification plans or funds required to correct these systems included in the overall Strategy. As we state in our report, one reason the Strategy is incomplete is it only includes costs to correct the interim migratory accounting systems. The Strategy does not include the time or costs associated with modifications to the systems that interface with and supply finance and accounting data to the interim migratory accounting systems. Although, DFAS may not be required to fund all of these modifications, we believe they must be identified because this area is crucial for the reporting of hundreds of millions of dollars on the financial statements. Additionally, DFAS personnel have provided no support that the pending Financial Accounting Standards Advisory Board guidance on reporting of assets would significantly decrease the funds needed to correct their systems. The Financial Accounting Standards Advisory Board guidance would change the reporting requirements for some, not all, DoD assets. DoD general assets would continue to be reported on the Statement of Financial Position and be subject to the same accounting principles and controls as other items reported on the financial statements.

Management Comments on Alternative Approaches to the DFAS Denver Center Strategic Plan. The DFAS Headquarters personnel stated that they planned to establish a team to evaluate alternative approaches to the complete redesign of the GLFC system. The DFAS has developed a project plan and a statement of work for contractor support to evaluate less costly and more desirable alternatives to the GLFC system, including commercial off-the-shelf software. This effort to identify and evaluate alternatives will be transferred to the program management structure being established to develop, facilitate, coordinate, integrate and interface on-going accounting efforts.

Audit Response. The development of a project plan by DFAS to identify alternatives for the DFAS Denver Center plan provides further support that DoD recognizes the current Strategy is not a valid approach to correct DoD general fund accounting system problems. The DFAS Denver Center has recently completed preliminary tests that concluded CEFMS could support the Air Force general fund accounting system needs. In fact, during May 1996, the DFAS Denver Center was in the process of obtaining approval to replace the GL/FC interim migratory system with CEFMS as the migratory system for Air Force general fund accounting.

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the Comments

Management Comments on the DFAS Denver Center's Estimate to Modify Air Force Property Systems. The DFAS-Denver Center estimated it would cost \$60 million to modify Air Force property systems to properly process and pass data into the proposed redesigned GLFC accounting system. However, the \$60 million figure is only a preliminary estimate and all DoD accounting systems will need similar modifications to account for property.

Audit Response. As stated in our report, we believe a crucial element missing from the Strategy is time frames and costs to modify feeder systems that provide data to the interim migratory accounting systems. This statement applies to all the Services, not just the Air Force.

Management Comments on Feeder Systems. The DFAS cannot produce auditable financial statements until all non-financial systems that pass data to DFAS accounting systems are modified to meet accounting requirements. To adequately address this accounting issue, the DFAS should cancel the Strategy and select and implement a single DoD-wide system for general fund accounting. Neither the IG, DoD, proposed Strategy nor the Department's current Strategy take into account the feeder systems that interface with the present general fund accounting systems. The development of a single general fund accounting system would require modifications to each of the systems that feed the general fund accounting system. The costs incurred in the development of a single general fund accounting system should take into account the cost of modifying each of the feeder systems.

Audit Response. We agree with the Deputy CFO that the costs to modify the feeder systems must be considered in both the Service-unique multiple system or single system approach. However, a single system approach would be advantageous to a multiple system approach when considering the number of interfaces that must be developed to properly pass accounting data between systems. For example, the Defense Civilian Pay System has been designated the standard DoD system for civilian pay. The Strategy will require at least four interfaces be developed between the Defense Civilian Pay System and the Army, Navy, Air Force, and Marine Corps interim migratory accounting systems. A single system strategy would only require the development and maintenance of one interface between the accounting and payroll systems.

Management Comments on Centralized Management of the Interim Migratory Accounting Strategy. The Deputy CFO took exception to our conclusion that the DFAS did not establish a centralized management office to provide clear guidance, direction, and control to ensure that the DFAS Centers carried out the Strategy consistently. The IG, DoD, found other inconsistencies and confusion at the DFAS Centers regarding the implementation of the Strategy. However, the DFAS is developing a new program management structure to oversee and manage the interim migratory accounting strategy and improve its operations and mission. Program oversight and management of the current interim migratory accounting strategy was accomplished by the DFAS Headquarters in several ways. First, each DFAS Center was tasked to develop a Strategy for its general accounting systems. That Strategy was reviewed and approved at the DFAS Headquarters. Then, each Center was tasked to prepare and submit the documents required by regulation for configuration management

Appendix G. Management Comments on the Finding and Recommendations and Audit Response to the comments

and life-cycle management. The DFAS Headquarters provided direct assistance, as needed, and then reviewed each of the documents to ensure they complied with the regulations and were consistent with the approved Strategy. Key individuals at the Centers were required to provide periodic briefings to the DFAS Headquarters on specific aspects of the projects. Briefings also were conducted at the DFAS Headquarters or during visits to the Centers. The DFAS Center Directors provide quarterly briefings to the DFAS Director and the DFAS Headquarters Deputy Directors. The DFAS Headquarters General Accounting Deputate assigns action officers for the major general accounting systems. The action officers ensure consistency in the development of strategies and plans, and ensure coordination with external DFAS activities. The action officers work with the DFAS Center action officers to ensure synchronous system development. A key duty of the Center action officers is to ensure that user requirements are taken into account and users are informed of DFAS efforts underway.

Audit Response. Although DFAS Headquarters was responsible for the Strategy, the management and oversight provided to the individual interim migratory accounting system program offices at the DFAS Centers was inadequate to ensure that the Strategy was being carried out consistently and would result in compliant general fund accounting systems. Support for this conclusion can be found throughout the report. DoD has now recognized the need for additional management control over the Strategy and is in the process of establishing a program management structure over all DoD accounting systems.

Management Comments on Potential Monetary Benefits Resulting From the Audit. The Deputy CFO took exception to our conclusion that \$187 million of Defense Business Operations Fund-Capital Funds would be put to better use. The DFAS Centers have already expended approximately \$35.5 million of Defense Business Operations Fund-Capital Funds in FY 1995 from an estimated total cost of \$216.4 million to complete the interim migratory accounting strategy. At least \$187.2 million--the balance--of Defense Business Operations Capital Funds could be put to better use. The report merely has made the statement, without presenting any solutions which demonstrates that the funds could be put to better use.

Audit Response. The \$187 million programmed to separately redesign four suites of duplicative, noncompliant, Service-unique accounting systems would be better spent to achieve the DoD long-term goal of implementing a single general fund accounting system. As previously discussed, there are many advantages to pursuing a single DoD-wide general fund accounting system instead of attempting to redesign multiple, Service-unique systems that will perform the same functions and meet the same requirements. DoD can pursue the implementation of a single general fund accounting system while continuing to eliminate legacy accounting systems and maximize short-, medium-, and long-term benefits.

Appendix H. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.	Economy and Efficiency. Cancels further expenditure of funds to fix multiple Service-unique general fund accounting system.	Funds put to better use. Approximately \$187.2 ¹ million of Defense Business Operations Funds - Capital. ²
2.	Economy and Efficiency. Improves controls over achieving a Federally compliant general fund accounting system.	Nonmonetary.
3.	Economy and Efficiency. Improves control over the development of a single, DoD-wide general fund accounting system.	Nonmonetary.

¹The \$187.2 million is based on the chart at Appendix F, Costs of the Interim Migratory Accounting Strategy. DFAS has estimated the cost to redesign, modify, and deploy its four duplicative Service-unique suites of interim migratory accounting systems at \$222.7 million (\$216.4 million plus \$6.3 million). The amount of \$35.5 million has already been spent in FY 1995. Therefore, if the currently flawed Strategy is cancelled, \$187.2 million will be made available to be put to better use. The \$187.2 million would reasonably be used to implement recommendation 2: establishing a systems strategy based on a single, DoD-wide general fund accounting system approach.

²The amount of the actual monetary benefit will be reduced by any of the \$35.5 million already spent for the system selected to be the DoD-wide system. Moreover, if any of the currently planned interim migratory accounting system is chosen as the DoD core system, then most or all of the portion of the funds earmarked for that system under the initial Strategy will have to be subtracted from the total of funds put to better use in order to determine the monetary impact of the audit. The exact amount of funds put to better use can only be calculated after the Strategy is fully realigned. This will be done during audit followup.

Appendix I. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
U.S. Army Corps of Engineers, Washington, DC
U.S. Army Corps of Engineers, Huntsville, AL
U.S. Army Audit Agency, Alexandria, VA

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Fiscal Director of the Marine Corps

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Audit Agency, March Air Force Base, CA

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN
Defense Finance and Accounting Service Cleveland Center, Cleveland, OH
Defense Finance and Accounting Service Denver Center, Denver, CO
Defense Finance and Accounting Service Kansas City Center, Kansas City, MO

Non-Defense Organization

General Accounting Office, Washington, DC

Appendix J. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
 Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Commander, U.S. Army Corps of Engineers

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Advanced Research Projects Agency
Director, Ballistics Missile Defense Organization
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
 Director, Defense Finance and Accounting Service Cleveland Center
 Director, Defense Finance and Accounting Service Columbus Center
 Director, Defense Finance and Accounting Service Denver Center

Other Defense Organizations (Cont'd)

Director, Defense Finance and Accounting Service Indianapolis Center
Director, Defense Finance and Accounting Service Kansas City Center
Director, Defense Information Systems Agency
Director, Defense Intelligence Agency
Director, Defense Investigative Service
Director, Defense Logistics Agency
Director, Defense Mapping Agency
Director, Defense Nuclear Agency
Director, National Security Agency
Inspector General, National Security Agency
Director, On-Site Inspection Agency
Director, Joint Staff
Director, American Forces Information Services
Director, Office of the Civilian Health and Medical Program of the Uniformed Services
Director, Defense Prisoner of War/Missing in Action Office
Director, Defense Technology Security Administration
Director, Department of Defense Dependent Schools
Director, Section 6 Schools
Director, Office of Economic Adjustment
Director, Washington Headquarters Services
President, Defense Acquisition University
President, Defense Systems Management College
President, Uniformed University of the Health Sciences

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on National Security
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



APR 11 1996

MEMORANDUM FOR ACTING DIRECTOR FOR FINANCE AND ACCOUNTING, OFFICE OF THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Comments on the Department of Defense Inspector General (DoDIG) Draft
Audit Report on The General Fund Interim Migratory Accounting Strategy
(DoDIG Project No. 5FI-2012)

This is in response to your request, dated December 29, 1995, for comments on the subject
draft audit report.

The DoDIG's recommendations to cancel the Department's current strategy for its
general fund interim migratory accounting systems and replace it with a single system strategy
has merit. However, I remain convinced that the current strategy that the Department is pursuing
is more cost effective, will provide more benefits sooner, and involves less of a risk than the
strategy recommended in the subject report. A response to each of the recommendations in the
subject report is attached, as are specific comments to the contents of the report.

My point of contact for this report is Mr. James R. Rivera. He may be reached at
(703) 697-8281.

Alvin Tucker
Deputy Chief Financial Officer

Attachment

**UNDER SECRETARY OF DEFENSE (COMPTROLLER)
COMMENTS ON DODIG DRAFT AUDIT REPORT, PROJECT NO. SFI-2012
"THE GENERAL FUND INTERIM MIGRATORY ACCOUNTING STRATEGY"**

RESPONSE TO REPORT RECOMMENDATIONS

Recommendation 1. The Under Secretary of Defense (Comptroller) direct the Director, Defense Finance and Accounting Service to cancel the General Fund Interim Migratory Accounting Strategy.

USD(C) Response. Nonconcur. The basic elements of the Department's Strategy continue to be valid. Multiple approaches were exhausted before deciding on the current incremental phasing strategy. This Strategy reduces legacy systems and substitutes interim systems that are being continuously enhanced. This continuous improvement process greatly reduces the risk of system failure and yields short and medium term benefits, in addition to long term benefits.

Halting the ongoing execution of the current Strategy--and substituting efforts to implement a single DoD-wide general fund accounting system--would be more costly, take longer, provide little or no short or medium term benefit and greatly increase the risk of putting DoD accounting operations in jeopardy. Thus, acceptance of the recommendation would greatly increase the risk of not improving DoD's accounting system process even on an incremental basis.

However, additional actions can be taken to increase the management attention, resources and pace of the ongoing strategy execution. In fact, actions already are underway as identified under the comment to recommendation 3, below.

Recommendation 2. The Under Secretary of Defense (Comptroller) direct the Director, Defense Finance and Accounting Service to establish and implement a systems strategy based on a single, DoD-wide general fund accounting system approach.

USD(C) Response. Nonconcur. This recommendation was carefully evaluated both when developing the existing USD(C) strategy and in formulating this response to the report. The existing strategy is believed to be the most feasible, as well as the most cost effective, approach.

The Department cannot put its accounting systems and operations on hold until a standard general fund accounting system can be designed, developed and fielded. Many past efforts to create new advanced business systems have fallen far short of expectations (due to time, cost or functionality) or were canceled. These efforts also suppressed rather important functional and technical improvements in the interim period. This often resulted in the functional operations and systems being degraded further than when the initiative began.

Under Secretary of Defense (Comptroller) Comments

The current incremental strategy provides the least risk to the Department's accounting operations and greatest potential for short, medium and long term success. The Strategy already has generated cost savings as a result of reducing the number of accounting systems from 91 to 77. This Strategy also supports consolidation of systems and operations from over 300 Defense Accounting Offices to 21 Defense Finance and Accounting Service (DFAS) Operating Locations.

Recommendation 3. The Under Secretary of Defense (Comptroller) direct the Director, Defense Finance and Accounting Service to establish a centralized program management structure to provide direction and control over the selection and implementation of a DoD-wide general fund accounting system approach.

USD(C) Response. Partially concur. The DFAS has initiated action to create the necessary program management structure to fix responsibility over all DoD accounting systems (i.e., not limited only to the general funds). That structure should be operational by May 1, 1996. However, as indicated in response to recommendations 1 and 2 above, the USD(C) does not endorse the single system approach.

ADDITIONAL COMMENTS

Page i, under the caption "Introduction." Accounting systems deficiencies within the DoD have been identified as the major reason that accounting information is unreliable and unsupported.

USD(C) Comment. Nonconcur. The report fails to mention and compare the condition of general fund accounting systems before 1991 to the current condition of these systems. Prior to the establishment of the DFAS in 1991, general fund accounting in the Department was being performed at many different locations, with many different accounting systems.

The majority of the general fund accounting systems did not meet the requirements of the Federal Managers Financial Integrity Act (FMFIA), the Chief Financial Officers (CFO) Act, and other Federal laws and regulations. As a first step in fixing these problems, the DFAS identified, documented and reported the system shortcomings, and then devised necessary corrective actions. Also, the DFAS developed the first comprehensive inventory of DoD automated accounting systems. Progress is being made by the DFAS as is evidenced by the fact that the inventory has gone from 91 systems in 1991 to 77 systems in 1995. This reduction of 14 systems is generating annual recurring cost savings of \$26.4 million.

Page i, under the caption "Audit Results." The Service-unique approach used for the Strategy does not fully support DoD Corporate Information Management Initiatives or Defense Management Review Decision 910.

USD(C) Comment. Nonconcur. The Corporate Information Management (CIM) Initiatives and the Defense Management Review Decision (DMRD) 910 involved complex management operations that required extensive planning and coordinating actions. The overall USD(C) strategy has been leading the Department through a sequence of organized actions, and achieving notable progress towards the overall objectives of the CIM and DMRD 910.

The statements under this caption imply that the DFAS has received few, if any, benefits from the \$43 million obligated to modify general fund accounting systems in FY 1995. This is not the case. The draft audit report does not recognize or identify the costs associated with systems changes required to comply with legislative provisions or changes as a result of regulatory requirements from the Offices of the Secretary of Defense (OSD) and other external DoD organizations such as the Office of Management and Budget, the Internal Revenue Service, and the Treasury Department. These investment costs cannot be over-looked. Furthermore, the report does not identify or address the cost savings and other benefits which have resulted from the modifications to the general fund accounting systems.

The following table summarizes the categories of investment to which these funds were applied. The paragraphs below the table describe the first two categories in more detail.

	(\$ in Millions)
	<u>FY 1995 Obligations</u>
Congressional/OSD Directed	\$ 6.6
Consolidation/Standardization	15.3
Requirements Analysis/Systems Evaluations	9.4
Key Accounting Requirements	6.7
Other	<u>5.0</u>
Total	<u>\$43.0</u>

Congressional/OSD Directed (\$6.6M)

As the above table indicates, \$6.6 million was obligated for congressional mandated or OSD directed policy changes such as the requirements to provide for prevalidation prior to payment and to correct unmatched disbursements. These changes were necessary to comply with the law. As a result, the DFAS has made significant progress in complying with congressional language on prevalidation. Beginning in July 1995, the DFAS began prevalidating all payments over \$5 million. Today, prevalidation occurs for all payments over \$1 million, except in unique circumstances, and often prevalidation occurs below \$1 million. In the benefits area, OSD policy changes have had a big payback in terms of improving the integrity of our financial systems.

Consolidation/Standardization (\$15.3M)

The investment cost in this category is further divided into the subcategories presented below. A discussion of FY 1995 accomplishments and/or benefits derived follows for each of these subcategories.

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(\$ in Millions)
FY 1995 Obligations

Standard Accounting and Reporting System (STARS)	9.9
Standard O&M, Army R&D System (SOMARDS)	1.4
Changes Required for Site Consolidation	2.5
Other Standardization	<u>1.5</u>
Total	\$15.3

STARS

- Deployment of STARS to 6 Integrated Disbursing and Accounting Financial Management System (IDAFMS) sites (Pensacola, New Orleans, Norfolk, Jacksonville, San Diego, and Pearl Harbor).
- Annual Recurring Savings of \$14.3M beginning in FY 1996 from replacement of IDAFMS at the above sites.

(\$ in Millions)
FY 1996 Savings

• Savings in Information Processing Costs	12.4
• Savings in Software Maintenance	<u>1.9</u>
Total	\$14.3

SOMARDS

- Replacement of the following Army Materiel Command systems:
 - Army Research Office Accounting System
 - Belvoir Research & Development Center Accounting System
 - Aviation Applied Technology Division System
 - Natick Appropriated Fund Accounting System
- Based on 1994 operating costs, preliminary data indicates annual recurring savings in software maintenance for these systems should approach \$.3 million.

Changes Required for Site Consolidation

- The DFAS site consolidation necessitated changes to the following general fund accounting systems in FY 1995: Standard Army Finance System, and the General Accounting and Finance System-Base Level. The investments in these systems will contribute to the savings.

Other Standardization

- During FY 1995, the DFAS provided funds for a United States Army Corps of Engineers (USACE) project related to the Corps of Engineers Financial Management System (CEFMS). The investment in this initiative will improve the effectiveness of the USACE financial management. An additional \$.5 million supported interfaces between the Standard Accounting Budgeting and Reporting System (SABRS) and other finance and accounting systems, including STARS.
- The report states that implementing a single DoD general fund accounting system could result in cost avoidance of at least \$182 million. There are several reasons to disagree with this statement. First, the budget request includes funds for modifications required to comply with new congressional mandates or changes in DoD policy. Second, the report does not recognize the near term savings in DFAS operating costs that will occur from the implementation of interim migratory accounting systems. Approximately one-third of the \$43 million cited in the report was for initiatives that will reduce DFAS operating costs this year. For example, in FY 1995, the deployment of STARS to those Navy sites operating IDAFMS is projected to reduced DFAS operating costs by \$14.3 million per year, starting in FY 1996. Other benefits also are realized such as improved compliance and better reporting.
- The Office of the DoDIG participated, as an observer, in the Defense Business Operation Fund (DBOF) Corporate Board multi-system decision process for the DBOF interim migratory strategy approval. This strategy also included a different system for each business area/Military Department. Therefore, the DoDIG should be familiar with the complications of moving to a single system; however, the report conclusion understates this approach for the general accounting strategy. Additionally, the audit report does not present an analysis of any cost or benefits showing the cost advantage of an incremental versus a "single" system strategy.

Page 4, under the caption "Correcting DoD General Fund Accounting Systems." The Service-unique approach used for the Strategy does not fully support DoD Corporate Information Management Initiatives or Defense Management Review Decision 910.

USD(C) Comment. Nonconcur. The Department is continuing with an organize planned approach that compliments the CIM initiatives and DMRD 910 and fulfills the intent of those endeavors in an orderly phased approach while minimizing any inherent risk.

At the outset, the DFAS goal was to develop, within 5 years, a single, integrated DoD general accounting system. Because the existing accounting systems were designed for different functions (e.g., budget and funds control), and to support a variety of different business practices, that goal was unattainable. The DFAS now is using a 3-part, incremental strategy that will: (1) reduce the number of systems using interim migratory systems; (2) make selective investments in interim migratory systems; and (3) make further consolidations to even fewer systems. In addition to developing coherent, DoD-wide goals and strategies, the DFAS has compiled a reliable inventory of systems and completed functional and technical reviews of the major systems to identify

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Reference

Page 5

strengths, weaknesses, and high risk areas. On a selective basis, the DFAS has begun to enhance interim migratory systems to be compliant with applicable laws and regulations, and to improve performance at lower costs. Also, the DFAS has begun to add state-of-the-art electronic communications and data exchange capabilities to these systems.

Page 4, under the caption "Correcting DoD General Fund Accounting Systems." The DFAS has already spent \$36 million in FY 1995 on interim migratory accounting systems that resulted in little or no progress in actually correcting accounting systems deficiencies.

USD(C) Comment. Nonconcur. Since 1991, the major accomplishments in the general fund accounting area that are not noted in the DoDIG report include: (1) development of coherent goals and strategy; (2) consolidation of operations and elimination of redundant systems; (3) standardization of accounting policies and procedures; (4) improvements in reporting and accountability; and (5) derived benefits that offset costs.

Consolidation of general fund accounting operations and the elimination of redundant systems has occurred on a limited basis. For example, the STARS consolidated five Navy general fund accounting systems during FY 1994, and plans are in place to replace thirteen more systems with STARS by the end of FY 1998. The overall strategy is to reduce, from 51 to 4, the number of Navy general fund accounting systems.

The Department has made much progress in standardizing general fund accounting policies and procedures. Previously, the Department developed and published general fund accounting policy as directives, instructions and/or as part of the "DoD Accounting Manual." The DoD Components then developed their own sets of implementing instructions, which subordinate commands and units often modified to fit their own circumstances. At the present, the Department has incorporated or is incorporating most financial issuances into the "DoD Financial Management Regulation" (DoD 7000.14-R). The DFAS is developing two volumes of this regulation that standardize general fund accounting policies and procedures; Volume 4 "Accounting Policy and Procedures" and Volume 6 "Reporting Policy and Procedures." Once published, the volumes are distributed in a number of different ways to help ensure compliance. When volumes of the regulation are distributed, the superseded DoD policies and procedures, and any duplicate or overlapping policies and procedures developed by the DoD Components, are rescinded.

DFAS general fund accounting efforts have led to improvements in reporting and accountability. Management of general fund accounting systems has been centralized and performance measures have been developed to identify and report progress toward meeting the Department's goals. Budget control and budget discipline also have had positive results.

Page 5

Page 5, under the caption "Strategy Background," subcaption "Initial Studies and Evaluations of General Fund Accounting Systems." The DFAS began reviewing accounting systems in August 1991 to develop a plan to decrease the number of DoD accounting systems and to correct system deficiencies; however, the DFAS did not establish the Strategy until December 1993.

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USD(C) Comment. Partially concur. The information presented in this paragraph is partially correct; however, it overlooks and simplifies some of the factors that led to changes in the Department's strategy from its inception in 1991 to the present. For example, one factor was the complex efforts of improving accounting systems and operations, and at the same time, reducing overall organizational costs. Accordingly, the DFAS is in process of standardizing systems and consolidating operations at newly created operating locations.

References to the title "Acting Comptroller" in the seventh line from the top of the paragraph should be deleted and replaced with the USD(C). Any decisions or signed correspondence would be under the guise of the position of the organization and not the individual. In the same manner, reference to "current" and "staff" in the fourth to the last line of the paragraph should be deleted.

Page 8, under the caption "Resources Expended for Duplicate Plans." The Strategy to modify DoD general fund accounting systems results in duplication of effort. Under the Strategy, the DFAS Centers were unnecessarily spending resources to duplicate development and correction of multiple suites of accounting systems to perform the same general fund accounting functions for the individual Services and the Marine Corps.

USD(C) Comment. Nonconcur. As stated previously, a significant portion of the funds expended by the DFAS were necessary to modify DoD accounting systems to meet statutory and regulatory requirements, and to support the consolidation of accounting operations.

Page 8, under the caption "Separate Approaches Developed for the Strategy." As part of the Strategy, the DFAS Centers developed separate, duplicative approaches to solve unique problems inherent in their selected suites of interim migratory accounting systems.

USD(C) Comment. Nonconcur. Different approaches were necessary in the preliminary phases of the strategy because of particular circumstances that were different for each of the systems. Each general funds accounting system has its own set of unique criteria and varied level of complete requirements. For example, existing DFAS-Denver Center general accounting systems lack general ledger control. Thus, the corrective action for those systems will be different than the approaches taken by other DFAS Centers that operate accounting systems already having adequate general ledger control.

Page 9, under the caption "Strategy Efforts Focused on Service-Unique Systems." The Strategy's Service-unique approach does not fully support both the DoD CIM initiative and DMRD 910.

Caption
Revised

USD(C) Comment. Nonconcur. As previously stated, this office is continuing with an organized planned approach that compliments the CIM initiatives and DMRD 910 decision and fulfills the intent of these endeavors in an orderly phased approach--while minimizing any inherent risk. The DFAS is making much progress towards these objectives by eliminating unnecessary general fund accounting systems and consolidating accounting operations.

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Page 11, under the caption "Interim Migratory Accounting Systems Require Redesigns and Major Modifications," subcaption "Redesigns and Modifications Needed to Other Interim Migratory Accounting Systems" and Page 21, under the caption "Status of STANFINS." The extent of modifications needed to other interim migratory accounting systems were not known because the DFAS-Indianapolis Center had not made final accounting system selections and individual interim migratory accounting systems plans were either nonexistent or incomplete.

USD(C) Comment. Nonconcur. Detailed Strategic Business Plans were completed for all interim migration general accounting systems by December 1, 1995. The STANFINS/SOMARDS/CEFMS situation referred to at the DFAS Indianapolis Center is not a case of indecision--as noted in the report--but merely reflects the fact of DoDIG auditors being present during the actual DFAS process of alternatives analysis and evaluation which were being considered as part of the total process. After the evaluation of the requirements to modify STANFINS, the DFAS concluded that a SOMARDS or CEFMS alternative should be reviewed. It was decided that the selection of either of those systems would be better than modifying STANFINS. Therefore, the DFAS Strategy was modified to reflect that change. The current test of the CEFMS software in a STANFINS environment will be completed by May 1996. This process has always been considered a single evolutionary whole process.

Page 14

Page 12, under the caption "Time Frames and Costs of Interim Migratory Accounting Strategy." Individual interim migratory accounting systems plans were incomplete and the Strategy had not progressed beyond the accounting system evaluation phase.

USD(C) Comment. Nonconcur. As mentioned previously, the DFAS completed detailed Strategic Business Plans for all interim migration general accounting systems in December 1995. The principal objective of the Strategy is to reduce the number of legacy systems. During FY 1995, plans were executed which eliminated eight legacy systems. However, FY 1995 was used essentially as a year of analysis to determine the systems changes required for the selected interim migration systems in order to correct compliance issues. FY 1995 also marked the year where objectives were addressed and the execution of the Strategy commenced.

For completeness, the report should add that the Department currently is reviewing Defense Agency accounting systems to review their requirements and develop a strategy consistent with the overall DoD accounting vision.

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Page 13, under the caption "Time Frames and Costs of Interim Migratory Accounting Strategy," subcaption "Time Frames Established for the Strategy." The DFAS Headquarters informed the interim migratory accounting system project offices at the DFAS Centers that the USD(C) mandated the Strategy be completed by the end of FY 1997, but recently changed the completion date to September 30, 2000.

USD(C) Comment. The timeframes for this Strategy were originally set by the Secretary of Defense memorandum dated October 13, 1993. That memorandum specified selection and transition of migration systems within three and a half years. However, in a ASD(C3I) memorandum, subject: Information and Technology Modernization, which is currently being

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circulated for comment, the three and a half requirement for migration systems selection and implementation is being removed. The ASD(C3I) memorandum being circulated for comment focuses future efforts on process improvement and the most direct support to the warfighters, including the Global Command and Control System (GCCS) and the Global Combat Support System (GCSS). It requires an overarching strategy for information management in each functional area and a better use of adaptive systems approaches to enable continued improvement of business processes. These new policies will be promulgated in appropriated issuances.

Page 15, under the caption "Summary" and Page 23, under the caption "Implementing a Single DoD-Wide General Fund Accounting System." This uncertainty and conflict could be avoided and significant savings to the Army customers could be achieved by canceling the Strategy and selecting and implementing a single DoD-wide general fund accounting system; and DFAS can select and implement a single, DoD-wide general fund accounting system that would allow DFAS to meet multiple long-term goals to improve finance and accounting within DoD.

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USD(C) Comment. Nonconcur. The draft audit report offers nothing to support this statement and conclusion. This office is unaware of any DoD system (financial or non-financial) that has been developed and deployed in the manner suggested by the report. The DODIG recommended solution offers an untested and extremely risky approach. The current (incremental) Strategy and approach by the DFAS is the most effective, least risky, and least costly approach in the long run considering the short term benefits and offset in savings.

Page 16, under the caption "Time Frames and Costs of Interim Migratory Accounting Strategy," subcaption "Denver Center Plan."

Caption
Revised
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USD(C) Comment. During the initial meetings between the DoDIG auditors and the DFAS-Denver Center personnel, the DoDIG auditors stated that they could not obtain support for multiple cost estimates. This was because—at the time—DFAS-Denver had not yet completed the formal economic analysis. With the completion of the conceptual study in May 1995, the most recent cost and concept was provided to office of the DoDIG. The net cost savings for both General Ledger/Funds Control (GL/FC) System and Departmental Cash Management System (DCMS) is \$77.9 million, with a development cost of \$29.0 million for GL/FC and \$7.5 million for DCMS. The study concept also presents hardware costs and savings for converting these systems. The issue of property was being addressed via the study of the Transfer of Management Responsibility for Systems which gives the Air Force the guidance necessary to upgrade its property systems to general ledger requirements. This concept also accommodates the pending FASAB guidance which would result in a low cost for achieving property accounting.

The GL/FC plan does not include any Defense Business Operations Fund (DBOF) costs because the costs were extracted from the original \$145 million estimate after separate studies for DBOF were undertaken. The \$145 million estimate included property (a cost the Air Force would bear—\$60 million) and DBOF (\$20 million) leaving a baseline of \$64 million. The savings of \$77.9 million result from increased functionality and increased efficiency. There is no reference in the draft audit report to the cost to the Air Force or the Department to establish these functions in a new or existing (non-Air Force) accounting system.

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Page 17, under the caption "The DFAS Headquarters Involvement in the DFAS Denver Center Plan." The DFAS Headquarters personnel stated that they planned to establish a team to evaluate alternative approaches to the complete redesign of the GLFC system.

USD(C) Comment. The DFAS has developed a project plan and a statement of work for contractor support to evaluate less costly and more desirable alternatives to the GL/FC system, including commercial off-the-shelf software. This effort to identify and evaluate alternatives will be transferred to the program management structure being established to develop, facilitate, coordinate, integrate and interface on-going accounting efforts.

Page 18, under the caption "Costs and Time Frames to Fix DoD Systems that Provide Data to the Accounting Systems." The DFAS-Denver Center estimated it would cost \$60 million to modify Air Force property systems to properly process and pass data into the proposed redesigned GLFC accounting system.

USD(C) Comment. Concur; however, the \$60 million figure is only a preliminary estimate and all DoD accounting systems will need similar modifications to account for property. We currently are awaiting a final standard from the FASAB on the accounting and reporting of property, plant and equipment.

Page 19

Page 18, under the caption "Costs and Time Frames to Fix DoD Systems that Provide Data to the Accounting Systems." The DFAS cannot produce auditable financial statements until all non-financial systems that pass data to DFAS accounting systems are modified to meet accounting requirements. To adequately address this accounting issue, the DFAS should cancel the Strategy and select and implement a single DoD-wide system for general fund accounting.

USD(C) Comment. Neither the DoDIG's proposed Strategy nor the Department's current Strategy take into account the feeder systems that interface with the present general fund accounting systems. The development of a single general fund accounting system would require modifications to each of the systems that feed the general fund accounting system. The costs incurred in the development of a single general fund accounting system should take into account the cost of modifying each of the feeder systems.

ages 21

Pages 19-23, under the caption "Centralized Management of the Interim Migratory Accounting Strategy." The DFAS did not establish a centralized management office to provide clear guidance, direction, and control to ensure that the DFAS Centers carried out the Strategy consistently. The DoDIG found other inconsistencies and confusion at the DFAS Centers regarding the implementation of the Strategy.

USD(C) Comment. Nonconcur. However, the DFAS is developing a new program management structure to oversee and manage of the interim migratory accounting strategy and improve its operations and mission. Program oversight and management of the current interim migratory accounting strategy was accomplished by the DFAS Headquarters in several ways. First, each DFAS Center was tasked to develop a strategy for its general accounting systems. That strategy

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